

CONNECTICUT RESOURCES

RECOVERY AUTHORITY

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2007

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

**ANNUAL FINANCIAL REPORT****AS OF AND FOR THE YEAR ENDED
JUNE 30, 2007**

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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, 2007 and 2006, 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, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Carlin, Charon & Rosen, LLP

Glastonbury, Connecticut
September 25, 2007

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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, 2007 and 2006. 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.

FINANCIAL POSITION SUMMARY

The Authority's fiscal year 2007 total assets decreased by \$7.7 million or 1.9% over fiscal year 2006 and total liabilities increased by \$6.0 million or 3.9%. Total assets exceeded total liabilities by \$238.7 million as of June 30, 2007 as compared to \$252.4 million as of June 30, 2006, or a net decrease of \$13.7 million. The fiscal year 2006 total assets increased by \$15.3 million or 3.9% compared to fiscal year 2005 and total liabilities decreased by \$6.4 million or 4.0%. Total assets exceeded total liabilities by \$252.4 million as of June 30, 2006 as compared to \$230.8 million as of June 30, 2005, or a net increase of \$21.6 million.

	(In Thousands)		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
ASSETS			
Current unrestricted assets	\$ 124,788	\$ 125,572	\$ 92,292
Current restricted assets	60,290	20,819	23,779
Total current assets	<u>185,078</u>	<u>146,391</u>	<u>116,071</u>
Non-current assets:			
Restricted cash and cash equivalents	49,642	80,130	81,452
Investments	779	-	-
Capital assets, net	156,334	171,721	184,414
Development and bond issuance costs, net	4,921	6,218	7,221
Total non-current assets	<u>211,676</u>	<u>258,069</u>	<u>273,087</u>
TOTAL ASSETS	<u>\$ 396,754</u>	<u>\$ 404,460</u>	<u>\$ 389,158</u>
LIABILITIES			
Current liabilities	\$ 72,270	\$ 31,705	\$ 33,695
Long-term liabilities	85,713	120,321	124,695
TOTAL LIABILITIES	<u>157,983</u>	<u>152,026</u>	<u>158,390</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 117,855	\$ 89,888	\$ 100,471
Restricted	43,324	63,907	61,636
Unrestricted	77,592	98,639	68,661
Total net assets	<u>238,771</u>	<u>252,434</u>	<u>230,768</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 396,754</u>	<u>\$ 404,460</u>	<u>\$ 389,158</u>



FINANCIAL HIGHLIGHTS

The following is an overview of significant changes within the Balance Sheets as of June 30, 2007 and 2006:

ASSETS

Current unrestricted assets decreased by \$0.8 million or 0.6% over fiscal year 2006, which increased by \$33.3 million or 36.1% over fiscal year 2005. The fiscal year 2007 decrease is primarily due to:

- Funds used to partially defease the remaining Mid-Connecticut Project 1996 Series A Bonds (\$21.6 million); and
- Payments for plant improvements and equipment purchases at the Mid-Connecticut Waste Processing Facility and landfill development costs (\$1.7 million); and
- Increases in payments for contract operating charges at the Bridgeport project (\$4.7 million) as a result of the depletion of the municipal share fund, which was used to offset processing costs; offset by:
- Increased operating cash balances of \$19.6 million at the Bridgeport, Mid-Connecticut and Wallingford projects as a result of contributions toward operating cash requirements for specific purposes; and
- Interest earned on current unrestricted cash and cash equivalents (\$5.1 million); and
- A \$3.0 million grant receivable from the Connecticut Department of Environmental Protection ("CTDEP") as reimbursement of costs previously incurred by the Authority in the closure of the Shelton landfill.

The fiscal year 2006 increase over 2005 was primarily due to:

- Increased operating cash balances of \$22.8 million at the Bridgeport, Mid-Connecticut, and Wallingford projects as a result of contributions toward operating cash requirements for specific purposes; and
- A \$5.2 million transfer of funds, including \$0.5 million of interest income, from current restricted assets as a result of an arbitration award associated with claimed overcharging of indirect costs from one of the Mid-Connecticut operators; and
- Interest earned on current unrestricted cash and cash equivalents (\$4.1 million); and
- A transfer of fiscal year 2005 cash surplus of \$2.8 million from the Mid-Connecticut project current restricted assets to the Mid-Connecticut operating cash account; offset by:
- Payments for plant improvements and equipment purchases at the Waste Processing and Power Block Facilities, postclosure costs at the Ellington Landfill and landfill development costs (\$1.3 million).

Current restricted assets increased by \$39.5 million or 189.6% over fiscal year 2006, which decreased by \$3.0 million or 12.4% compared to fiscal year 2005. The fiscal year 2007 increase is primarily due to:



- Increased restricted cash balance of \$37.3 million (net of attorneys' fees and costs of litigation) at the Mid-Connecticut project as a result of litigation-related settlements; and
- Increased Revenue Fund balances at the Mid-Connecticut and Bridgeport projects of \$2.7 million and \$0.7 million, respectively. The increase at the Bridgeport project is due to cash provided by operating activities exceeding cash used in capital and related financing activities. The increase at the Mid-Connecticut project is due to cash provided by operating activities exceeding cash used in capital and related financing activities, net of funds used to partially defease the remaining Mid-Connecticut Project 1996 Series Bonds; and
- Interest earned on current restricted cash and cash equivalents (\$1.7 million); offset by:
- Decreased Revenue Fund balance at the Southeast project of \$2.1 million due to delayed receipt of electric revenue as of June 30, 2007.

The fiscal year 2006 decrease from 2005 was primarily due to:

- A \$5.2 million transfer of funds, including \$0.5 million of interest income, to current unrestricted assets as a result of the arbitration award associated with claimed overcharging of indirect costs from one of the Mid-Connecticut operators; offset by:
- Increased reserve cash balances of \$0.8 million at the Bridgeport, Mid-Connecticut, and Southeast projects as a result of contributions toward reserve cash requirements; and
- Funds released to current restricted assets by the Trustee for \$0.6 million from the non-current restricted Mid-Connecticut Debt Service Reserve Fund for the amount in excess of the Bond Resolution reserve funding requirement; and
- Interest earned on current restricted cash and cash equivalents (\$0.3 million).

Non-current assets decreased by \$46.4 million or 18.0% over fiscal year 2006, which decreased by \$15.0 million or 5.5% compared to fiscal year 2005. The fiscal year 2007 decrease is primarily due to:

- Restricted cash and cash equivalents decreased by \$30.5 million primarily due to:
 - Funds used to partially defease the remaining Mid-Connecticut Project 1996 Series A Bonds (\$29.9 million); and
 - Regular principal and interest payments due on State loans to the Mid-Connecticut project (\$3.5 million); offset by:
 - Increased reserve cash balance of \$1.1 million at the Mid-Connecticut project as a result of contribution toward reserve cash requirement; and
 - Interest earned on non-current restricted cash and cash equivalents (\$2.4 million).



Connecticut Resources Recovery Authority

The fiscal year 2006 restricted cash and cash equivalents decrease of \$1.3 million compared to fiscal year 2005 was primarily due to:

- Regular principal and interest payments on State loans (\$3.4 million) plus road construction costs and a major overhaul for one of the jet turbines (\$0.8 million) at the Mid-Connecticut project; and
- Funds released by the Trustee for \$0.6 million from the Mid-Connecticut Debt Service Reserve Fund to current restricted assets for the amount in excess of the Bond Resolution reserve funding requirement; offset by:
 - Interest earned on non-current restricted cash and cash equivalents (\$2.5 million); and
 - Increased reserve cash balance of \$1.0 million at the Mid-Connecticut project as a result of contribution toward the Energy Generating Facility Reserve.
- Investments increased by \$0.8 million or 100% over fiscal years 2006 and 2005 due to the purchase of U.S. Treasury Bills for landfill trusts during fiscal year 2007 with maturities over three months.
- Capital assets, net decreased by \$15.4 million compared to fiscal year 2006, which decreased by \$12.7 million compared to fiscal year 2005. The fiscal year 2007 decrease is due to depreciation expense of \$17.2 million offset by \$1.8 million in plant improvements, equipment purchases, and construction in progress. The fiscal year 2006 decrease was due to depreciation expense of \$16.8 million and an asset write-off with a net book value of \$192,000 offset by \$4.3 million in plant improvements, equipment purchases, and construction in progress.
- Development and bond issuance costs decreased by \$1.3 million compared to fiscal year 2006, which decreased by \$1.0 million compared to fiscal year 2005. The fiscal year 2007 decrease is due to amortization expense and the write-off of unamortized bond issuance costs related to the Mid-Connecticut defeasance of debt. The fiscal year 2006 decrease was due to amortization expense.

LIABILITIES

Current liabilities increased by \$40.6 million or 127.9% compared to fiscal year 2006, which decreased by \$2.0 million or 5.9% compared to fiscal year 2005. The fiscal year 2007 increase is primarily due to:

- Increased net current portion of closure and postclosure care of landfills (\$9.2 million) due to higher costs anticipated to be incurred at the Hartford landfill within the next twelve months; and
- Increased accounts payable and accrued expenses (\$31.2 million) due to a ruling in the New Hartford suit (\$35.8 million) and settlement costs associated with the Ellington landfill settlement at the Mid-Connecticut project (\$1.2 million) partially offset by a write-off of over charges previously recorded as liabilities payable to one of the Mid-



Connecticut operators (\$2.2 million) plus the disbursement of funds for goods and services received.

The fiscal year 2006 decrease from 2005 was primarily due to decreased other liabilities (\$4.6 million) as a result of the arbitration award associated with claimed overcharging of indirect costs from one of the Mid-Connecticut operators offset by increased accounts payable and accrued expenses (\$2.6 million).

Long-term liabilities decreased by \$34.6 million or 28.8% compared to fiscal year 2006, which decreased by \$4.4 million or 3.5% compared to fiscal year 2005. The fiscal year 2007 decrease is due to:

- Long-term portion of bonds payable, net decreased by \$56.7 million compared to fiscal year 2006. The fiscal year 2007 decrease is due to regular principal payments due on Authority bonds (\$3.1 million) and the partial defeasance of the remaining Mid-Connecticut Project 1996 Series A Bonds in July 2006 (\$54.1 million) offset by the write-off of unamortized deferred amounts on the related debt (\$0.5 million).

The fiscal year 2006 decrease from 2005 of \$2.7 million was due to regular principal payments due on Authority bonds.

- State loans payable decreased by \$2.6 million over fiscal year 2006, which decreased by the same amount over fiscal year 2005. The fiscal year 2006 and 2005 decreases are due to regular principal payments on State loans.
- Closure and postclosure care of landfills increased by \$24.7 million compared to fiscal year 2006. The fiscal year 2007 increase is primarily due to:
 - Increased projected costs at all five landfills (\$34.6 million). The increase in projected costs at the Ellington, Shelton, Wallingford and Waterbury landfills is due to increased administration costs. The increase in projected costs at the Hartford landfill is primarily due to Authority assumption for the responsibility of all closure and postclosure care costs and increased administration costs at the landfill; offset by:
 - Increased net current portion of closure and postclosure care costs (\$9.2 million), which is classified under current liabilities; and
 - A reduction in the long-term liability accounts as a result of payments for postclosure care costs at the Ellington, Shelton, and Wallingford landfills (\$0.7 million).

The fiscal year 2006 increase over 2005 of \$1.1 million was primarily due to an increase in projected costs at the Shelton landfill (\$1.6 million) as a result of increases in general engineering and maintenance services offset by a reduction in the long-term liability accounts



as a result of payments for postclosure care costs at the Ellington, Shelton, and Wallingford landfills (\$667,000).

SUMMARY OF OPERATIONS AND CHANGE IN NET ASSETS

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

	Fiscal Years Ended June 30, (In Thousands)		
	2007	2006	2005
Operating revenues	\$ 180,514	\$ 180,093	\$ 168,941
Operating expenses	<u>188,149</u>	<u>148,449</u>	<u>137,443</u>
(Loss) income before depreciation and amortization and other non-operating revenues and (expenses)	(7,635)	31,644	31,498
Depreciation and amortization	<u>18,189</u>	<u>17,850</u>	<u>17,864</u>
(Loss) income before other non-operating revenues and (expenses), net	(25,824)	13,794	13,634
Non-operating revenues, net	<u>13,309</u>	<u>7,872</u>	<u>75,927</u>
(Loss) income before special items	(12,515)	21,666	89,561
Special items:			
Gain on sale of Enron claims	-	-	28,502
Early retirement/defeasance of debt	<u>(1,148)</u>	<u>-</u>	<u>(6,128)</u>
(Decrease) increase in net assets	(13,663)	21,666	111,935
Total net assets, beginning of year	<u>252,434</u>	<u>230,768</u>	<u>118,833</u>
Total net assets, end of year	<u>\$ 238,771</u>	<u>\$ 252,434</u>	<u>\$ 230,768</u>

Operating revenues increased slightly by \$0.4 million or 0.2% during fiscal year 2007 over fiscal year 2006 and \$11.2 million or 6.6% from fiscal year 2005 to fiscal year 2006. The fiscal year 2007 increase is primarily due to a write-off of over charges previously recorded as liabilities that has been written-off as other operating revenue during fiscal year 2007, which is offset by a decrease in tipping fees at the Mid-Connecticut project, lower than expected solid waste deliveries by members at all four operating projects and decreased recycling sales. The fiscal year 2006 increase was primarily due to a \$4.6 million increase in service charges due to increased member and contract deliveries, a \$4.1 million increase in energy sales primarily due to an increase in contract rates and an increase in recycling sales due to the favorable recycling sales market.

Operating expenses increased during fiscal year 2007 by \$39.7 million or 26.7% primarily as a result of a settlement agreement by which the Authority assumes the liability, contingent upon certain conditions, for all of the Hartford landfill closure and postclosure costs and increased administration costs at all five landfills. Other cost increases relate to the Ellington landfill settlement, increased contract operating charges at the Bridgeport project due to the depletion of the municipal share fund, which was used to offset processing costs, and increased legal costs at



the Bridgeport and Mid-Connecticut projects due to on-going legal activity and an arbitration dispute with the Bridgeport project facility operator. Operating expenses increased during fiscal year 2006 by \$11.0 million or 8.0% as a result of higher processing costs at the Bridgeport project due to additional contract waste deliveries, increased project costs for general engineering and maintenance services at the Shelton landfill, increased operating costs at the Mid-Connecticut project due to unplanned repairs at the Waste Processing Facility, and additional export costs incurred at the Wallingford project due to a transformer failure at the plant. Higher legal costs were also incurred at the Bridgeport and Mid-Connecticut projects due to on-going legal activity.

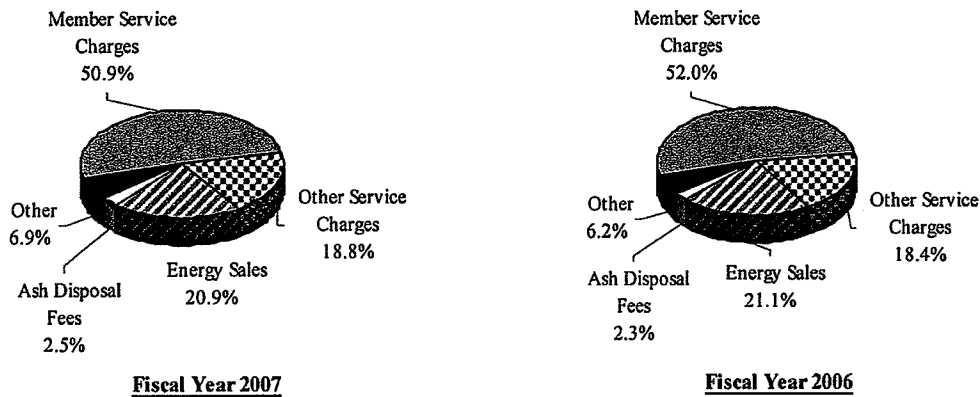
Depreciation and amortization remained fairly constant, decreasing by \$339,000 and \$14,000 over fiscal years 2006 and 2005, respectively.

Non-operating revenues, net increased by \$5.4 million during fiscal year 2007 primarily due to \$40.2 million litigation-related settlements, a \$3 million grant from the CTDEP as reimbursement of costs previously incurred by the Authority in the closure of the Shelton landfill, a settlement with one of the Mid-Connecticut operators for several claims related to the operation of waste-to-energy system at the Mid-Connecticut project, increased investment income, and lower interest expense offset by \$35.8 million in litigation-related judgment, a \$1.15 million settlement costs associated with the Ellington landfill settlement and decreased other income. Non-operating revenues, net decreased by \$68.1 million during fiscal year 2006 primarily due to Enron claims of \$82.8 million received in fiscal year 2005 offset by increased investment income, lower interest expense, and increased other income.

Special item –Defeasance of debt: The fiscal year 2007 special item 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, which were partially defeased, during fiscal year 2007. There was no such special item incurred during fiscal year 2006.

SUMMARY OF OPERATING REVENUES

The following charts show the major sources and the percentage of operating revenues for the fiscal years ended June 30, 2007 and 2006:





Connecticut Resources Recovery Authority

During fiscal year 2007, Solid Waste tipping fees (member service and other service charges) plus ash disposal reimbursement account for 72.2% of the Authority's operating revenues. Energy sales make up another 20.9% of operating revenues. During fiscal year 2006, Solid Waste tipping fees (member service and other service charges) plus ash disposal reimbursement account for 72.7% of the Authority's operating revenues. Energy sales make up another 21.1% of operating revenues.

A summary of operating revenues and non-operating revenues (including the 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)

	2007	2006	2007 Increase/ (Decrease) from 2006	2007 Percent Increase/ (Decrease)	2005	2006 Increase/ (Decrease) from 2005	2006 Percent Increase/ (Decrease)
Operating Revenues:							
Member service charges	\$ 91,848	\$ 93,513	\$ (1,665)	(1.8%)	\$ 91,894	\$ 1,619	1.8%
Other service charges	33,917	33,186	731	2.2%	30,223	2,963	9.8%
Energy sales	37,857	37,945	(88)	(0.2%)	33,798	4,147	12.3%
Ash disposal reimbursement	4,485	4,229	256	6.1%	4,025	204	5.1%
Other operating revenues	12,407	11,220	1,187	10.6%	9,001	2,219	24.7%
Total Operating Revenues	180,514	180,093	421	0.2%	168,941	11,152	6.6%
Non-Operating Revenues:							
Litigation-related settlements	40,225	-	40,225	-	-	-	-
Enron claims settlement	-	-	-	-	82,760	(82,760)	(100.0%)
Investment income	8,888	7,664	1,224	16.0%	4,471	3,193	71.4%
Other income	4,073	5,980	(1,907)	(31.9%)	1,884	4,096	217.4%
Total Non-Operating Revenues	53,186	13,644	39,542	289.8%	89,115	(75,471)	-84.7%
Special Item:							
Gain on sale of Enron claims	-	-	-	0.0%	28,502	(28,502)	(100.0%)
TOTAL	\$ 233,700	\$ 193,737	\$ 39,963	20.6%	\$ 286,558	\$ (92,821)	(32.4%)

Overall, fiscal year 2007 total revenues increased by \$40.0 million or 20.6% over fiscal year 2006. Fiscal year 2006 total revenues decreased by \$92.8 million or 32.4% over fiscal year 2005. The following discusses the major changes in operating and non-operating revenues of the Authority:

- Member service charges decreased by \$1.7 million in fiscal year 2007 and increased by \$1.6 million in fiscal year 2006. The fiscal year 2007 decrease reflects a decrease in the tipping fee enacted at the Mid-Connecticut Project and lower than expected solid waste deliveries at all four operating projects. The fiscal year 2006 increase reflects the increased tipping fee enacted at the Bridgeport and Wallingford projects.
- Other service charges to both contract towns and spot waste haulers, increased by \$0.7 million from fiscal year 2006 to 2007. This contrasts with a \$3.0 million increase from fiscal year 2005 to 2006. The fiscal year 2007 increase is due to availability as a result of

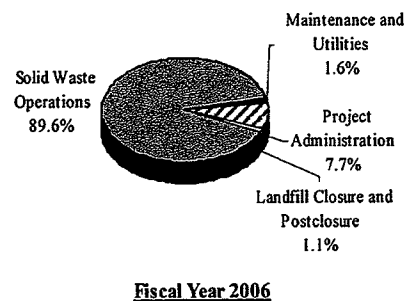
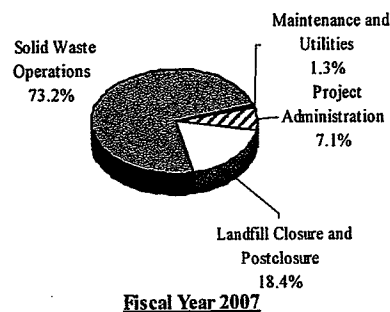


lower than expected member deliveries. The fiscal year 2006 increase was due to the continued efforts of the Authority to contract for additional waste at the Bridgeport project.

- Energy sales decreased slightly by \$88,000 during fiscal year 2007 and increased by \$4.1 million during fiscal year 2006. The fiscal year 2007 decrease reflects the lower energy rates in effect during fiscal year 2007 in accordance with the two-year energy purchase agreement at the Mid-Connecticut project and decreased electricity generation. The fiscal year 2006 increase reflects the higher energy rates at the Mid-Connecticut and Wallingford projects.
- Other operating revenues increased by \$1.2 million in fiscal year 2007 and \$2.2 million in fiscal year 2006. The fiscal year 2007 increase is due to the write-off of over charges previously recorded as liabilities payable to one of the Mid-Connecticut operators, which has been written-off as other operating revenue, offset by decreased recycling sales. The fiscal year 2006 increase was the result of favorable recycling sales markets.
- Litigation-related settlements of \$40.2 million represent settlements of various Enron-related lawsuits during fiscal year 2007. There were no such gains during fiscal year 2006.
- Investment income increased \$1.2 million from fiscal year 2006 to 2007 and \$3.2 million from fiscal year 2005 to 2006 due to improved investment rates and increased balances.
- Other income of \$4.1 million for fiscal year 2007 represents the \$3.0 million grant from the CTDEP for landfill closure costs previously incurred by the Authority to close the Shelton landfill (see "Landfill Activity" section herein), a settlement with the Mid-Connecticut operators for several claims related to the operation of waste-to-energy system at the Mid-Connecticut project (\$434,000, at present value), gains on sales of equipment (\$192,000), and miscellaneous income (\$447,000). Other income of \$6.0 million for fiscal year 2006 represents indirect costs and workers compensation insurance overcharged by one of the Mid-Connecticut operators in prior fiscal years (\$5.0 million), proceeds from insurance for loss on an asset due to an accident (\$378,000), gains on sales of equipment (\$312,000), and miscellaneous income (\$283,000).

SUMMARY OF OPERATING EXPENSES

The following charts show the major sources and the percentage of operating expenses for the fiscal years ended June 30, 2007 and 2006:





Connecticut Resources Recovery Authority

Solid Waste Operations are the major component of the Authority's operating expenses, accounting for 73.2% of operating expenses in fiscal year 2007. During fiscal year 2006, Solid Waste Operations accounted for 89.6% of operating expenses.

A summary of operating expenses and non-operating expenses (including the special items for the fiscal years ended June 30, 2007 and 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 ITEMS
Fiscal Years Ended June 30,
(In Thousands)

	2007	2006	2007 Increase/ (Decrease) from 2006	2007 Percent Increase/ (Decrease)	2005	2006 Increase/ (Decrease) from 2005	2006 Percent Increase/ (Decrease)
Operating Expenses:							
Solid waste operations	\$ 137,767	\$ 133,026	\$ 4,741	3.6%	\$ 126,322	\$ 6,704	5.3%
Maintenance and utilities	2,401	2,313	88	3.8%	2,037	276	13.5%
Landfill closure and postclosure	34,639	1,629	33,010	2026.4%	180	1,449	805.0%
Project administration	13,342	11,481	1,861	16.2%	8,904	2,577	28.9%
Total Operating Expenses	188,149	148,449	39,700	26.7%	137,443	11,006	8.0%
Depreciation	18,189	17,850	339	1.9%	17,864	(14)	-0.1%
Non-Operating Expenses:							
Litigation-related judgment	35,800	-	35,800	-	-	-	-
Litigation-related settlement	1,150	-	1,150	-	-	-	1
Interest expense	2,693	5,677	(2,984)	(52.6%)	10,022	(4,345)	(43.4%)
Other expenses	234	95	139	146.3%	3,166	(3,071)	(97.0%)
Total Non-Operating Expenses	39,877	5,772	34,105	590.9%	13,188	(7,416)	(56.2%)
Special Items:							
Early Retirement/Defeasance of Debt	1,148	-	1,148	-	6,128	(6,128)	(100.0%)
TOTAL	\$ 247,363	\$ 172,071	\$ 75,292	43.8%	\$ 174,623	\$ (2,552)	(1.5%)

The Authority's total expenses increased by \$75.3 million or 43.8% between fiscal year 2007 and 2006. Fiscal year 2006 total expenses decreased by \$2.6 million or 1.5% from fiscal year 2005. Notable differences between the fiscal years include:

- Solid waste operations increased by \$4.7 million from fiscal year 2006 to 2007 primarily due to:
 - Operating expenses at the Bridgeport project increased due to the depletion of the municipal share fund, which was previously used to offset processing costs; and
 - Operating expenses at the Southeast project increased due to a distribution of funds to the Southeastern Connecticut Regional Resources Recovery Authority for future expenses, partially offset by a reduction in the service fee paid by the Authority to the operator as a result of higher electric contract rates; offset by:



- Operating expenses at the Mid-Connecticut project decreased due to a reduction of the recycling operating charges per a new operating agreement, a reduction in the solid waste assessment as a result of a favorable ruling from the Department of Revenue Services and lower natural gas consumption for the odor control system as the result of a capital upgrade. These decreases were partially offset by increased operating costs at the Hartford landfill and Waste Processing Facility relating to capital upgrades at the facilities and increased marketing costs for a recycling campaign to increase recycling rates; and
- Operating expenses at the Wallingford project decreased due to lower waste export costs.

Solid waste operations increased by \$6.7 million from fiscal year 2005 to 2006 primarily due to:

- Operating expenses at the Mid-Connecticut project increased significantly due to unplanned repairs at the Waste Processing Facility. Operating expenses for the Power Block Facility, Recycling Facility and Jets also increased due to inflation increases. In addition, the Authority recorded a write-off of spare parts inventory during fiscal year 2006; and
 - Operating expenses at the Bridgeport project increased primarily due to the additional contract waste deliveries; and
 - Operating expenses at the Wallingford project increased as a result of additional export costs incurred due to a transformer failure at the plant and higher fuel costs, offset by:
 - Decreased operating expenses at the Southeast project due to higher electric contract rates, which is an offset to the service fee paid by the Authority to the operator.
- Maintenance and utilities expenses remain fairly constant, increasing by \$88,000 during fiscal year 2007 primarily due to capital improvements at the Bridgeport project transfer stations. During fiscal year 2006, maintenance and utilities increased \$276,000 primarily due to a one-time expense for the removal of a fence and other miscellaneous expenses at the Hartford landfill.
 - Landfill closure and postclosure costs increased by \$33.0 million between fiscal year 2006 and 2007 primarily due to the Authority's assumption for the responsibility of all closure and postclosure care costs at the Hartford landfill and increased administration costs at all five landfills. Between fiscal years 2005 and 2006, landfill closure and postclosure care costs increased by \$1.4 million due to increased projected costs as a result of increases in general engineering and maintenance services at the Shelton landfill.



- Project administration costs increased \$1.9 million during fiscal year 2007 over fiscal year 2006 and \$2.6 million during fiscal year 2006 over fiscal year 2005. During fiscal year 2007, this increase is due to higher legal expenses as a result of the continued legal activity associated with the Enron-related lawsuits at the Mid-Connecticut project as well as an arbitration dispute with the facility operator and the on-going project negotiations at the Bridgeport project. During fiscal year 2006, this increase was due to higher legal expenses as a result of on-going legal activity associated with the Enron-related lawsuits at the Mid-Connecticut project as well as the future option studies and on-going arbitration at the Bridgeport project, plus the addition of a part-time educator at the Stratford museum and a full-time enforcement employee for the Wallingford project.
- Litigation-related judgment increased by \$35.8 million during fiscal year 2007 as a result of the ruling in the New Hartford suit. There was no such expense incurred during fiscal year 2006.
- Litigation-related settlement of \$1.15 million represents costs associated with the Ellington landfill settlement during fiscal year 2007. There was no such expense incurred during fiscal year 2006.
- Interest expense decreased by \$3.0 million during fiscal year 2007 and \$4.3 million during fiscal year 2006 due to decreases in the principal amount of bonds outstanding.
- Other expenses during fiscal years 2007 and 2006 of \$234,000 and \$95,000, respectively, represent trustee fees, letter of credit fees and miscellaneous expenses.
- Defeasance of debt occurred during fiscal year 2007 and is discussed on page 9 of this MD&A.

CAPITAL ASSETS

The Authority's investment in capital assets for its activities as of June 30, 2007 and 2006 totaled \$156.3 million and \$171.7 million, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, roadways, equipment, gas and steam turbines, rolling stock and vehicles. The total fiscal year 2007 and 2006 decrease in the Authority's investment in capital assets was 9.0% and 6.9%, respectively. The decrease is due to depreciation expense offset by plant improvements, equipment purchases, and construction in progress.

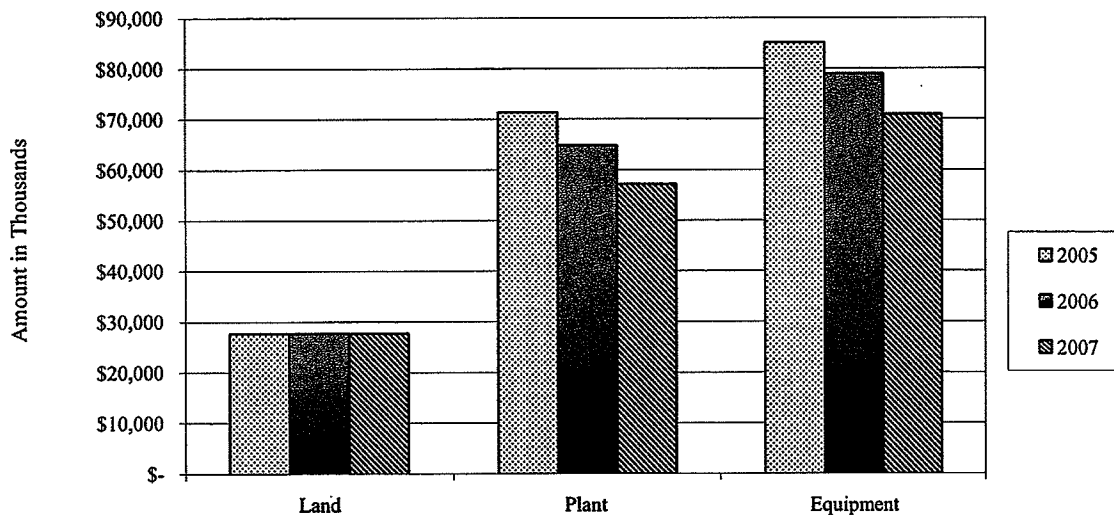
Major capital asset events during the current and immediate prior two fiscal years included vehicle and equipment purchases, conveyor rebuilds, floor repairs, building/leasehold improvements, replacement of trommel screens, jets repairs and overhaul, installation of a free blow system, installation of a fly ash system, and road reconstruction.



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

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

	2005	2006	2007
Land	\$ 27,774	\$ 27,774	\$ 27,774
Plant	71,380	64,875	57,223
Equipment	85,189	78,951	70,980
Construction in progress	71	121	357
Totals	\$ 184,414	\$ 171,721	\$ 156,334



Additional information on the Authority's capital assets can be found in Notes 1J and 3 on pages 30 and 34 of this report.

ENRON MATTERS

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 (total outstanding of \$2,100,000) and 2001 Series A (total outstanding of \$13,210,000) and partially defeased \$81,510,000 of its outstanding Mid-Connecticut Project Bonds 1996 Series A (total outstanding as of March 11, 2005 was \$150,925,000). 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 (see "State Loans" below).

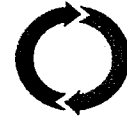
On February 24, 2005, the Authority's Board of Directors authorized the establishment of a Debt Service Stabilization Fund to be funded by the revenue expected to be generated by the bond defeasance and to be used to pay future debt service. By June 30, 2006, this fund contained \$16,475,899, which, when combined with other funds available (including the MDC Arbitration award, excess funds in the Energy Generating Facility Operating Fund, funds in the Mid-Connecticut Project Revenue Fund and the use of Trustee-released funds in the Mid-Connecticut Project Debt Service Reserve Fund) enabled the Authority to complete another bond defeasance of a portion of the Mid-Connecticut project debt remaining following the March 2005 bond defeasance. Accordingly, on July 27, 2006, the Authority defeased \$54,125,000 of the remaining \$69,415,000 Mid-Connecticut Project 1996 Series A Bonds.

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 authorization of a loan in the amount of \$22 million for the period June 30, 2003 through June 30, 2004 and the authorization of a subsequent loan in the amount of \$20 million for the period July 1, 2004 through June 30, 2005. During these periods, the Authority drew a total of \$21.5 million of the authorized State loans. The Authority has made no State loan requests since December 2004. As of June 30, 2007, the Authority had a principal balance of \$13.3 million outstanding. The Authority makes monthly loan repayments comprising both principal and interest payments from the irrevocable escrow account established for this purpose. 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

In 2004, the Authority embarked on a comprehensive landfill siting investigation for a new ash residue and/or bulky waste landfill. Two parcels have been identified as potential sites within the State that may be technically and environmental amenable to permitting and constructing a landfill. Since 2005, the Authority has sought to secure several parcels of land associated with the two different sites and has also contracted with an engineering firm to prepare a site



investigation plan for the two prospective parcels, and plans to begin on-site investigations by the end of calendar year 2007.

The Authority submitted a solid waste permit modification application to DEP in July 2006, associated with the Hartford landfill, to 1) revise the closure plan, prescribing a state-of-the-art synthetic cap; 2) revise the grading plan for a section of the east side of the landfill; 3) set a date certain for final delivery of waste of no later than December 31, 2008; and 4) discuss possible passive recreational future uses for the landfill and engage a landscape architect to provide a rendering of these possible activities. A favorable ruling on this permit modification was issued by DEP on March 29, 2007. As of June 30, 2007, there are eighteen months of capacity for non-processible waste and process residue generated at the Mid-Connecticut Resource Recovery Facility ("RRF") and approximately 16 months of capacity for ash residue generated by the RRF. Upon closure of the Hartford landfill, the Mid-Connecticut Project will incur substantial cost increases to transport and dispose of the non-processible waste, process residue and ash residue to other out-of-state facilities. The siting of a new ash landfill in Connecticut would mitigate some of these costs.

On February 2, 2007, the Authority and the City of Hartford executed a Settlement Agreement which resolved a long standing disagreement regarding responsibility for costs associated with closure and post-closure activities at the Hartford landfill. The Authority has reflected the latest costs estimates for closure and post-closure costs estimated to be \$43 million, which excludes insurance, in its financial statements. In addition, the State of Connecticut capital budget for fiscal year 2008 includes an appropriation of \$15 million for costs associated with closure of the Hartford landfill. Upon passage of the budget, and if approved by the Bond Commission, the \$15 million will be allocated to the Authority through the state Bond Commission, with \$3 million allocated in fiscal year 2008, and \$12 million allocated in fiscal year 2009.

In 1999, the Connecticut General Assembly passed legislation (Public Act 99-242) authorizing certain monies be spent on landfill closure activities associated with the landfill located on River Road in Shelton, CT. On March 20, 2007, the State Bond Commission allocated \$3 million to be disbursed from DEP to the Authority. The Authority executed a grant-in-aid agreement with DEP in July 2007, and expects to receive the funds in the second quarter of fiscal year 2008.

In May 2007, the Authority executed a settlement agreement with a private landowner, which settlement included a provision for the Authority to purchase 57 + acres of land in Ellington and East Windsor, Connecticut, and adjacent to the Authority's closed landfill in Ellington, CT, for the purpose of obtaining control of a subsurface landfill leachate plume. Conveyance of the property was completed in July 2007.

METROPOLITAN DISTRICT COMMISSION ARBITRATION RULING

Two arbitration hearings between the Authority and the Metropolitan District Commission (the "MDC") on claims asserted by both parties have been conducted in recent years.

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, nor were they awarded, 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 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. 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 appealed.

On December 21, 2006, the Authority and MDC entered into a Settlement Agreement and Mutual Release, pursuant to which MDC agreed to pay the Authority \$500,000, payable either in cash or credits against amounts otherwise due from the Authority to MDC, in equal yearly installments from 2006 through 2012, and to immediately withdraw its appeal with prejudice, and the parties exchanged mutual releases.

NEW HARTFORD SUIT

In December 2003, the Towns of New Hartford and Barkhamstead filed suit against the Authority, former board members and delegates, the Authority's former President, and others, seeking alleged damages resulting from the failed Enron transaction as well as equitable relief. In addition to vigorously contesting these claims on its own behalf, the Authority is defending and indemnifying its former President and board members. On August 10, 2005, the Motions to Dismiss of all of the non-Authority defendants were granted; on August 30, 2005, plaintiffs filed an appeal, which is still pending. On March 21, 2006, the court granted the plaintiffs' motion for Class Certification. Trial began on November 13, 2006 and the parties rested on January 11, 2007. On June 19, 2007, the court issued its decision, imposing a constructive trust on the sum of \$35,873,732.25 (received by the Authority from various parties in settlement of various Enron-related lawsuits and held by the Treasurer of the State of Connecticut in the Short-Term Investment Fund account) and ordering that amount to be forwarded to the plaintiffs, in care of their attorneys, immediately. The court also enjoined the Authority from passing any costs of the failed Enron transaction to the towns, effective for fiscal year 2008 and all subsequent years. On June 20, 2007, the Authority filed an Application for a Stay of Injunction Pending Appeal. On July 6, 2007, the Authority appealed the trial court's decision to the Appellate Court; on July 23, 2007, the appeal was transferred to the Connecticut Supreme Court. On July 25, 2007, the trial judge denied the Authority's Application for a Stay of Injunction Pending Appeal. On August 6, 2007, the Authority filed a Motion for Review of that denial with the Connecticut Supreme Court. The trial court retained jurisdiction over the plaintiffs' application for an order enjoining the Authority's implementation of its fiscal year 2008 budget, and held a hearing on September 5-6, 2007. A ruling is expected in October 2007.

AUTHORITY RATES AND CHARGES

During the months of January and February each year, as required under the various project bond resolutions, 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. 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
2006	70.00	66.00	8.00	57.00	60.00
2007	69.00	70.00	8.00	58.00	60.00

LONG-TERM DEBT ISSUANCE, ADMINISTRATION AND CREDIT RATINGS

As detailed in the table on page 20, as of the fiscal year ended June 30, 2007, the Authority had \$172.0 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 Covanta Southeastern Connecticut Company and is not carried on the Authority’s books. In addition, \$31.4 million of the outstanding bonds pertaining to the Bridgeport project, \$7.7 million of the outstanding bonds pertaining to the Wallingford project and \$49.5 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.

With the exception of the Southeast project conduit bonds and the Mid-Connecticut Project State Loans, all other bonds issued by the Authority are secured by credit enhancement in the form of municipal bond insurance. In some cases, certain bonds are further secured by the Special Capital Reserve Fund (“SCRF”) of the State of Connecticut. The 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 reserve draw are provided by the State’s General Fund and are deemed appropriated by the Connecticut legislature.

The Authority did not issue long-term debt for capital improvements during the fiscal year ended June 30, 2007.

The ratings of the Authority’s outstanding bonds were unchanged during the fiscal year ended June 30, 2007, with the exception of an upgrade of the Southeast Project’s Corporate Credit Revenue Bonds, which are not carried on the books of the Authority.

Additional information on the Authority’s long-term debt can be found in Note 4 on pages 34 - 37 of this report.

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.



Connecticut Resources Recovery Authority

STATUS OF OUTSTANDING BONDS ISSUED AS OF JUNE 30, 2007

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	Aaa	AAA	MBIA	X	8/20/96	11/15/12	\$209,675	\$15,290	\$15,290
2004 State Loan Borrowings (cumulative) ²	NR	NR	--	--	various	12/1/12	12,842	7,639	7,639
2005 State Loan Borrowings (cumulative) ²	NR	NR	--	--	various	6/1/12	8,659	5,681	5,681
								28,610	28,610
BRIDGEPORT PROJECT									
1999 Series A - Project Refinancing	Aaa	AAA	MBIA	--	8/31/99	1/1/09	141,695	32,725	1,280
2000 Series A - Refinancing (partial insurance)	A3/Aaa	A+/AAA	MBIA	--	8/1/00	1/1/09	9,200	2,380	2,380
								35,105	3,660
WALLINGFORD PROJECT									
1998 Series A - Project Refinancing	Aaa	AAA	Ambac	--	10/23/98	11/15/08	33,790	9,120	1,397
								9,120	1,397
SOUTHEAST PROJECT									
1998 Series A - Project Refinancing	Aaa	AAA	MBIA	X	8/18/98	11/15/15	87,650	55,675	6,194
CORPORATE CREDIT REVENUE BONDS									
1992 Series A - Corporate Credit	Ba1	BB+	--	--	9/1/92	11/15/22	30,000	30,000	0
2001 Series A - Covanta Southeastern Connecticut Company-I	Ba1	NR	--	--	11/15/01	11/15/15	6,750	6,750	0
2001 Series A - Covanta Southeastern Connecticut Company-II	Ba1	NR	--	--	11/15/01	11/15/15	6,750	6,750	0
								99,175	6,194
TOTAL PRINCIPAL BONDS OUTSTANDING								\$172,010	\$39,861

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

² On 3/24/05, an Irrevocable Escrow Fund 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 and Financial Reporting, 100 Constitution Plaza - 6th Floor, Hartford, CT 06103.



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BALANCE SHEETS
AS OF JUNE 30, 2007 AND 2006
(Dollars in Thousands)

EXHIBIT I
Page 1 of 2

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	\$ 89,116	\$ 98,644
Accounts receivable, net of allowances	28,450	22,148
Inventory	3,349	3,419
Prepaid expenses and other current assets	3,873	1,361
	<u>124,788</u>	<u>125,572</u>
Total Unrestricted Assets		
Restricted Assets:		
Cash and cash equivalents	59,657	20,204
Accrued interest receivable	633	615
	<u>60,290</u>	<u>20,819</u>
Total Restricted Assets		
Total Current Assets	<u>185,078</u>	<u>146,391</u>
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	49,642	80,130
Investments	779	-
Capital Assets:		
Depreciable, net	128,203	143,826
Nondepreciable	28,131	27,895
Development and bond issuance costs, net	4,921	6,218
	<u>211,676</u>	<u>258,069</u>
Total Non-Current Assets		
TOTAL ASSETS	<u>\$ 396,754</u>	<u>\$ 404,460</u>

The accompanying notes are an integral part of these financial statements



BALANCE SHEETS
AS OF JUNE 30, 2007 AND 2006
(Dollars in Thousands)

EXHIBIT I
Page 2 of 2

	2007	2006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of:		
Bonds payable, net	\$ 3,097	\$ 2,929
State loans payable	2,619	2,619
Closure and postclosure care of landfills	10,588	1,420
Accounts payable, accrued expenses and other liabilities	55,966	24,737
Total Current Liabilities	72,270	31,705
LONG-TERM LIABILITIES		
Bonds payable, net	22,835	79,499
State loans payable	10,701	13,320
Closure and postclosure care of landfills	50,777	26,019
Other liabilities	1,400	1,483
Total Long-Term Liabilities	85,713	120,321
TOTAL LIABILITIES	157,983	152,026
NET ASSETS		
Invested in capital assets, net of related debt	117,855	89,888
Restricted for:		
Tip fee stabilization	15,290	14,481
Energy generating facility	12,012	20,962
Debt service reserve funds	5,228	19,565
Cash escrow - litigation-related settlements	2,126	-
Operating and maintenance	1,662	1,575
Equipment replacement	1,662	1,575
Select Energy escrow	1,000	1,000
Debt service funds	968	1,096
Shelton landfill future use	824	792
DEP trust - landfills	781	742
Recycling education fund	542	417
Regional recycling center equipment	452	429
Montville landfill postclosure	402	205
Rebate fund	292	277
Other restricted net assets	83	791
Total Restricted	43,324	63,907
Unrestricted:		
Designated	68,700	62,871
Undesignated	8,892	35,768
Total Unrestricted	77,592	98,639
Total Net Assets	238,771	252,434
TOTAL LIABILITIES AND NET ASSETS	\$ 396,754	\$ 404,460

The accompanying notes are an integral part of these financial statements



STATEMENTS OF REVENUES, EXPENSES AND
CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in Thousands)

EXHIBIT II

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Service charges:		
Members	\$ 91,848	\$ 93,513
Others	33,917	33,186
Energy sales	37,857	37,945
Ash disposal reimbursement	4,485	4,229
Other operating revenues	12,407	11,220
Total operating revenues	<u>180,514</u>	<u>180,093</u>
Operating Expenses		
Solid waste operations	137,767	133,026
Depreciation and amortization	18,189	17,850
Maintenance and utilities	2,401	2,313
Closure and postclosure care of landfills	34,639	1,629
Project administration	13,342	11,481
Total operating expenses	<u>206,338</u>	<u>166,299</u>
Operating (Loss) Income	(25,824)	13,794
Non-Operating Revenues and (Expenses)		
Litigation-related settlements, net	39,075	-
Investment income	8,888	7,664
Other income, net	3,839	5,885
Litigation-related judgment	(35,800)	-
Interest expense	(2,693)	(5,677)
Net Non-Operating Revenues	<u>13,309</u>	<u>7,872</u>
(Loss) Income before Special Item	(12,515)	21,666
Special item:		
Defeasance of debt	(1,148)	-
Total special item	<u>(1,148)</u>	<u>-</u>
(Decrease) Increase in Net Assets	(13,663)	21,666
Total Net Assets, beginning of year	<u>252,434</u>	<u>230,768</u>
Total Net Assets, end of year	<u>\$ 238,771</u>	<u>\$ 252,434</u>

The accompanying notes are an integral part of these financial statements



**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in Thousands)**

EXHIBIT III

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities		
Payments received from providing services	\$ 175,858	\$ 186,942
Proceeds from settlements	40,225	-
Payments to suppliers for goods and services	(154,697)	(144,661)
Payments to employees for services	(4,484)	(4,226)
Net Cash Provided by Operating Activities	<u>56,902</u>	<u>38,055</u>
Cash Flows From Investing Activities		
Interest on investments	8,879	7,375
Purchases of investments	(770)	-
Net Cash Provided by Investing Activities	<u>8,109</u>	<u>7,375</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from sales of equipment	192	312
Payments for landfill closure and postclosure care liabilities	(713)	(667)
Acquisition and construction of capital assets	(1,942)	(4,188)
Defeasance of debt	(275)	-
Interest paid on long-term debt	(2,981)	(5,399)
Principal paid on long-term debt	(59,778)	(5,494)
Net Cash Used in Capital and Related Financing Activities	<u>(65,497)</u>	<u>(15,436)</u>
Cash Flows From Non-Capital Financing Activities		
Other interest and fees	(77)	(41)
Net Cash Used in Non-Capital Financing Activities	<u>(77)</u>	<u>(41)</u>
Net (decrease) increase in cash and cash equivalents	(563)	29,953
Cash and cash equivalents, beginning of year	<u>198,978</u>	<u>169,025</u>
Cash and cash equivalents, end of year	<u>\$ 198,415</u>	<u>\$ 198,978</u>
Reconciliation of Operating (Loss) Income to Net Cash (Used In) Provided By Operating Activities:		
Operating (loss) income	\$ (25,824)	\$ 13,794
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Depreciation of capital assets	17,246	16,845
Amortization of development and bond issuance costs	943	1,005
Provision for closure and postclosure care of landfills	34,639	1,629
Other income	3,791	5,647
Litigation-related settlements, net	39,075	-
Litigation-related judgment	(35,800)	-
(Increase) decrease in:		
Accounts receivable, net	(6,302)	987
Inventory	70	377
Prepaid expenses	(2,512)	(119)
Increase (decrease) in:		
Accounts payable, accrued expenses and other liabilities	31,576	(2,110)
Net Cash Provided by Operating Activities	<u>\$ 56,902</u>	<u>\$ 38,055</u>

The accompanying notes are an integral part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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 (the "State") and is included as a component unit in the State's Comprehensive Annual Financial Report. As of June 30, 2007, the Authority is authorized to have a board consisting of eleven directors and eight ad-hoc members. The Governor of the State appoints three directors and all eight ad-hoc members. The remaining eight directors are appointed by various state legislative leaders. All appointments require the advice and consent of both houses of the General Assembly.

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

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 and recycling services to 70 Connecticut municipalities through service contract arrangements. The Authority owns the Resources Recovery Facility, the transfer stations, the Ellington Landfill and the Regional Recycling Center. The Authority leases the land for the Essex transfer. The Authority controls the Hartford Landfill under a long-term lease with the City of Hartford. 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 jet 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 jet 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 and recycling services to 20 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 participating

municipalities and other system 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 14 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 to be 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 post-closure 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 \$408,000 and \$558,000 at June 30, 2007 and 2006, 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, 2007 and 2006 are summarized as follows:

Inventories	2007 (\$000)	2006 (\$000)
Spare Parts	\$ 3,157	\$ 3,224
Coal	192	195
Total	<u>\$ 3,349</u>	<u>\$ 3,419</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 and 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, 2007 and 2006, development and bond issuance costs for the projects are as follows:

Project	2007 (\$000)	2006 (\$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	3,120	2,965
Wallingford	5,100	4,817
Southeast	6,477	6,084
	<u>14,697</u>	<u>13,866</u>
Total development costs, net	<u>\$ 4,253</u>	<u>\$ 5,084</u>
Bond Issuance		
Costs:		
Mid-Connecticut	\$ 239	\$ 1,087
Bridgeport	275	275
Wallingford	105	105
Southeast	1,008	1,008
	<u>1,627</u>	<u>2,475</u>
Less accumulated amortization:		
Mid-Connecticut	155	634
Bridgeport	214	183
Wallingford	86	76
Southeast	504	448
	<u>959</u>	<u>1,341</u>
Total bond issuance costs, net	<u>\$ 668</u>	<u>\$ 1,134</u>
Totals, net	<u>\$ 4,921</u>	<u>\$ 6,218</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 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

Effective July 1, 2006, the Authority changed its capitalization threshold from \$1,000 for property, plant, and equipment to \$5,000 for property, plant, and non-office equipment and \$1,000 for office furniture and equipment. Improvements, renewals and significant repairs that extend the useful life of a capital asset are capitalized; other repairs and maintenance costs are expensed as incurred. When capital assets are retired or otherwise disposed of, the related asset and accumulated depreciation is written off and any related gains or losses are recorded.

K. Accrued Compensation

The Authority's liability for vested accumulated unpaid vacation 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 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 \$68.7 million and \$62.9 million as of June 30, 2007 and 2006, 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 totaled \$43.3 million and \$63.9 million as of June 30, 2007 and 2006, respectively.



2. CASH DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist of the following as of June 30, 2007 and 2006:

	2007 (\$000)	2006 (\$000)
Unrestricted:		
Cash deposits	\$ 1,225	\$ 1,487
Cash equivalents:		
STIF *	87,891	97,157
	<u>89,116</u>	<u>98,644</u>
Restricted – current:		
Cash deposits	404	1,348
Cash equivalents:		
STIF *	56,540	16,288
Money Market Funds	2,713	2,568
	<u>59,657</u>	<u>20,204</u>
Restricted – non-current:		
Cash equivalents:		
STIF *	49,273	79,062
U.S. Treasuries	-	741
Money Market Funds	369	327
	<u>49,642</u>	<u>80,130</u>
Total:	<u>\$198,415</u>	<u>\$198,978</u>

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

	2007 (\$000)	2006 (\$000)
Uninsured and Uncollateralized	\$ 3,533	\$ 3,985
Uninsured but collateralized with securities held by the pledging bank's trust department or agent but not in the Authority's name	\$ 446	\$ 503
Total	<u>\$ 3,979</u>	<u>\$ 4,488</u>

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.

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, 2007 and 2006, approximately \$4.0 million and \$4.5 million, respectively, of the Authority's bank balance of cash deposits were exposed to custodial credit risk as follows:

Investments in the Short-Term Investment Fund ("STIF"), U.S. Treasuries and Money Market Funds as of June 30, 2007 and 2006, are included in cash and cash equivalents in the accompanying balance sheets. 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, 2007, 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	\$193,704	\$193,704	\$0	\$0	\$0
U.S. Treasuries	779	779	0	0	0
Money Market Funds	3,082	3,082	0	0	0
Total	\$197,565	\$197,565	\$0	\$0	\$0

As of June 30, 2006, 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	\$192,507	\$192,507	\$0	\$0	\$0
U.S. Treasuries	741	741	0	0	0
Money Market Funds	2,895	2,895	0	0	0
Total	\$196,143	\$196,143	\$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, 2007 and 2006, STIF had a weighted average maturity of 50 days and 39 days, respectively. The U.S. Treasury Securities are U.S. Treasury Bills that had 180-day and 90-day maturities as of June 30, 2007 and 2006, respectively. The Money Market Funds invest exclusively in short-term U.S. Treasury

obligations and repurchase agreements secured by U.S. Treasury obligations. This fund complies with Securities and Exchange Commission regulations regarding money market fund maturities, which requires that the weighted average maturity be 90 days or less. As of June 30, 2007 and 2006, the weighted average maturity of these funds was one day and three 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 objectives of the Authority's investment policy are 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). The Authority has created an irrevocable escrow fund invested in STIF, which will be sufficient to pay the principal and interest due on the State loans through maturity in 2012.

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, 2007, the Authority's investments were rated as follows:

Security	Fair Value (\$000)	Standard & Poor's	Moody's Investor Service	Fitch Ratings
STIF	\$193,704	AAAm	Not Rated	Not Rated
U.S. Treasuries	779	AAA	Aaa	AAA
Money Market Funds	3,082	AAAm	Aaa	AAA

As of June 30, 2006, the Authority's investments were rated as follows:

Security	Fair Value (\$000)	Standard & Poor's	Moody's Investor Service	Fitch Ratings
STIF	\$192,507	AAAm	Not Rated	Not Rated
U.S. Treasuries	741	AAA	Aaa	AAA
Money Market Funds	2,895	AAAm	Aaa	AAA

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investment policy does not include provisions for custodial credit risk, as the Authority does not invest in securities that are held by counterparties. In accordance with GASB Statement No. 40, none of the Authority's investments require custodial credit risk disclosures.

Concentration of Credit Risk

The Authority's investment policy places no limit on the amount of investment in any one issuer, but does require diversity of the investment portfolio if investments are made in non-U.S. government or U.S. agency securities to eliminate the risk of loss of over-concentration of assets in a specific class of security, a specific maturity and/or a specific issuer. The asset allocation of the investment portfolio should, however, be flexible enough to assure adequate liquidity for Authority and/or bond resolution needs. As of June 30, 2007 and 2006, approximately 98.0% and 98.1%, respectively, of the Authority's investments are in the STIF, which is rated in the highest rating category by Standard & Poor's and provides daily liquidity, thereby satisfying the primary objectives of the Authority's investment policy.



3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended June 30, 2006 and 2007:

	Balance at July 1, 2005 (\$000)	Additions (\$000)	Transfers (\$000)	Sales and Disposals (\$000)	Balance at June 30, 2006 (\$000)	Additions (\$000)	Transfers (\$000)	Sales and Disposals (\$000)	Balance at June 30, 2007 (\$000)
Nondepreciable assets:									
Land	\$ 27,774	\$ -	\$ -	\$ -	\$ 27,774	\$ -	\$ -	\$ -	\$ 27,774
Construction-in-progress	71	50	-	-	121	260	-	(24)	357
Total nondepreciable assets	\$ 27,845	\$ 50	\$ -	\$ -	\$ 27,895	\$ 260	\$ -	\$ (24)	\$ 28,131
Depreciable assets:									
Plant	\$ 188,081	\$ 1,277	\$ -	\$ (117)	\$ 189,241	\$ 185	\$ -	\$ (97)	\$ 189,329
Equipment	205,936	3,074	-	(2,901)	206,109	1,593	-	(924)	206,778
Total at cost	394,017	4,351	-	(3,018)	395,350	1,778	-	(1,021)	396,107
Less accumulated depreciation for:									
Plant	(116,701)	(7,730)	-	65	(124,366)	(7,798)	-	58	(132,106)
Equipment	(120,747)	(9,115)	-	2,704	(127,158)	(9,448)	-	808	(135,798)
Total accumulated depreciation	(237,448)	(16,845)	-	2,769	(251,524)	(17,246)	-	866	(267,904)
Total depreciable assets, net	\$ 156,569	\$ (12,494)	\$ -	\$ (249)	\$ 143,826	\$ (15,468)	\$ -	\$ (155)	\$ 128,203

Interest is capitalized on assets acquired with debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until completion of the projects with interest earned on invested debt proceeds over the same period. During fiscal 2007 and 2006, there was no capitalized interest as there was no new 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.

Connecticut Resources Recovery Authority



The following is a summary of changes in bonds payable for the years ended June 30, 2006 and 2007.

	Balance at July 1, 2005 (\$000)	Increases (\$000)	Decreases (\$000)	Balance at June 30, 2006 (\$000)	Increases (\$000)	Decreases (\$000)	Balance at June 30, 2007 (\$000)	Amounts Due Within One Year (\$000)
Bonds payable - principal	\$ 86,575	\$ -	\$ (2,875)	\$ 83,700	\$ -	\$ (57,159)	\$ 26,541	\$ 3,195
Unamortized amounts:								
Premiums	626	-	(109)	517	-	(99)	418	88
Deferred amount on refunding	(2,208)	-	419	(1,789)	-	762	(1,027)	(186)
Total bonds payable	\$ 84,993	\$ -	\$ (2,565)	\$ 82,428	\$ -	\$ (56,496)	\$ 25,932	\$ 3,097

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, 2007 and 2006 as follows:

Project	2007 (\$000)	2006 (\$000)
Deferred amount on refunding:		
Mid-Connecticut	\$ 108	\$ 667
Bridgeport	(6)	(15)
Wallingford	4	10
Southeast	921	1,127
Subtotal	1,027	1,789
Reduced by unamortized premium:		
Bridgeport	(5)	(11)
Southeast	(413)	(506)
Subtotal	(418)	(517)
Net Reduction	\$ 609	\$ 1,272

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, 2007 and 2006, which are backed by special capital reserve funds, are as follows:

Project	2007 \$000	2006 \$000
Mid-Connecticut	\$ 15,290	\$ 69,415
Southeast	6,194	6,725
Total	\$ 21,484	\$ 76,140



Connecticut Resources Recovery Authority

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

Year ending June 30	Mid-Connecticut		Bridgeport		Wallingford		Southeast		Total	
	Principal (\$000)	Interest (\$000)	Principal (\$000)	Interest (\$000)	Principal (\$000)	Interest (\$000)	Principal (\$000)	Interest (\$000)	Principal (\$000)	Interest (\$000)
2008	\$ -	\$ 832	\$ 1,955	\$ 185	\$ 684	\$ 42	\$ 556	\$ 315	\$ 3,195	\$ 1,374
2009	-	832	1,705	86	713	14	586	283	3,004	1,215
2010	3,525	737	-	-	-	-	618	250	4,143	987
2011	3,715	542	-	-	-	-	650	215	4,365	757
2012	8,050	449	-	-	-	-	1,404	180	9,454	629
2013-2017	-	-	-	-	-	-	2,380	328	2,380	328
	<u>\$ 15,290</u>	<u>\$ 3,392</u>	<u>\$ 3,660</u>	<u>\$ 271</u>	<u>\$ 1,397</u>	<u>\$ 56</u>	<u>\$ 6,194</u>	<u>\$ 1,571</u>	<u>\$ 26,541</u>	<u>\$ 5,290</u>
Interest Rates	5.375-5.50%		5-5.5%		4%		5.125-5.5%			

Defeasance of Debt

During the year ended June 30, 2007, the Authority used funds available from the Mid-Connecticut project, including the Debt Service Stabilization Fund established for the payment of future debt service, the MDC Arbitration award, funds in the Energy Generating Facility Reserve Fund, funds in the Mid-Connecticut Project Revenue Fund and the use of Trustee-released funds in the Mid-Connecticut Project Debt Service Reserve Fund to partially defease Mid-Connecticut Project debt as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Amount (\$000)</u>
Bonds Defeased		
Mid-Connecticut	5.375% - 5.5%	<u>\$ 54,125</u>
		<u>\$ 54,125</u>

The funds described above 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 the defeased 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 July 2006, the Authority legally defeased \$54.125 million of certain Mid-Connecticut bonds.

The Authority has previously defeased a total of \$150.945 million in Mid-Connecticut project bonds, of which \$84.620 million remain payable as of June 30, 2007 from an irrevocable trust escrow to bondholders.

The Authority recognized \$1.148 million in the accompanying statement of revenues, expenses and change in net assets representing the write-off of unamortized amounts related to the defeased bonds payable, including bond issuance costs and other deferred amounts.

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, 2007, 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

Connecticut Resources Recovery Authority



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 2007 was 5.88%.

The following is a summary of changes in the State loans payable for the years ended June 30, 2006 and 2007.

	Balance at July 1, 2005 (\$000)	Increases (\$000)	Decreases (\$000)	Balance at June 30, 2006 (\$000)	Increases (\$000)	Decreases (\$000)	Balance at June 30, 2007 (\$000)	Amounts Due Within One Year (\$000)
State loans payable - principal	\$ 18,558	\$ -	\$ (2,619)	\$ 15,939	\$ -	\$ (2,619)	\$ 13,320	\$ 2,619

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

Year Ending June 30	Principal (\$000)	Interest (\$000)
2008	\$ 2,619	\$ 725
2009	2,619	566
2010	2,619	410
2011	2,619	254
2012	2,619	98
2013	<u>225</u>	<u>4</u>
Total	<u>\$ 13,320</u>	<u>\$ 2,057</u>

Interest rate is assumed @ 5.88%

The Authority has created an irrevocable escrow fund invested in STIF, which will be sufficient

to pay the principal and interest due on the State loans through maturity in 2012.



**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 post-closure care costs that are paid near or after the date a landfill stops accepting waste. In accordance with GASB Statement No. 18, the Authority estimates its liability for these closure and post-closure care costs and records any increases or decreases to the liability as an operating expense. For landfills presently open, such estimate is based on landfill capacity used as of the balance sheet date. The liability for these costs is reduced when the costs are actually paid, which is generally after the landfill is closed.

Actual costs may be higher due to inflation or changes in permitted capacity, technology or regulation. The closure and post-closure care liabilities including the amounts paid and accrued for fiscal 2006 and 2007 for the landfills, are presented in the following table:

Connecticut Resources Recovery Authority



Project/Landfill	Liability at July 1, 2005 (\$000)	Expense (\$000)	Paid (\$000)	Liability at June 30, 2006 (\$000)	Expense (\$000)	Paid (\$000)	Liability at June 30, 2007 (\$000)	Amounts Due Within One Year (\$000)
Mid-Connecticut:								
Hartford	\$ 6,806	\$ 82	\$ -	\$ 6,888	\$ 33,613	\$ -	\$ 40,501	\$ 9,456
Ellington	3,139	96	(198)	3,037	580	(174)	3,443	244
Bridgeport:								
Shelton	10,396	1,498	(340)	11,554	208	(410)	11,352	651
Waterbury	1,017	-	-	1,017	(124)	-	893	-
Wallingford:	<u>5,119</u>	<u>(47)</u>	<u>(129)</u>	<u>4,943</u>	<u>362</u>	<u>(129)</u>	<u>5,176</u>	<u>237</u>
Total	<u>\$ 26,477</u>	<u>\$ 1,629</u>	<u>\$ (667)</u>	<u>\$ 27,439</u>	<u>\$ 34,639</u>	<u>\$ (713)</u>	<u>\$ 61,365</u>	<u>\$ 10,588</u>

The estimated remaining costs to be recognized in the future as closure and post-closure care of landfill expense, the percent of landfill capacity used and the remaining years of life for open landfills at June 30, 2007 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	\$ 2,570	86%	97%	2	2
Bridgeport-Waterbury	<u>140</u>	—	70%	—	3
Total	<u>\$ 2,710</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 post-closure 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 \$468,000 and \$445,000 at June 30, 2007 and 2006, respectively. The Bridgeport-Waterbury Landfill account is valued at \$167,000 and \$158,000 at June 30, 2007 and 2006, respectively. The Wallingford Landfill account is valued at \$146,000 and \$139,000 at



June 30, 2007 and 2006, respectively. These trust accounts are reflected as restricted assets in the accompanying balance sheets.

At June 30, 2007, 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 2007.

In addition to the above trust accounts and letter of credit, the Authority satisfies certain financial assurance requirements at June 30, 2007 and 2006 by meeting specified criteria pursuant to Section 258.74 of the federal Environmental Protection Agency Subtitle D regulations.

Please see Note 12 for Settlement Agreement and permit modification associated with the Hartford Landfill.

6. MAJOR CUSTOMERS

Energy sales to Select Energy, Inc. ("Select") and CL&P totaled 20% (10% each, respectively) of the Authority's operating revenues for each of the fiscal years ended June 30, 2007 and 2006.

Service charge revenues from Waste Management of Connecticut, Inc. totaled 7% and 10% of the Authority's operating revenues for the fiscal years ended June 30, 2007 and 2006, 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 five percent of payroll plus a dollar for dollar match of employees' contributions up to five percent. Authority contributions for the years ended June 30, 2007 and 2006 amounted to \$389,000 and \$392,000, respectively. Employees contributed

\$368,000 to the plan in fiscal year 2007 and \$328,000 in fiscal year 2006.

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 2007, the Authority increased its overall property insurance limit 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 limit 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. The premium for the current policy for the period from July 1, 2007 through July 1, 2008 was \$54,000. The premium for the previous policy for the period from October 1, 2006 through July 1, 2007 was \$47,000.

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	2007 (\$000)	2006 (\$000)
Minimum rentals	\$ 633	\$ 638
Contingent rentals	169	145
Total	\$ 802	\$ 783

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, 2007 and 2006, the PILOT payments, which are included in the solid waste operations in the accompanying statements of revenues, expenses and change in net assets, totaled \$8,381,000 and \$7,983,000, respectively. Future minimum rental commitments under non-cancelable operating leases and future PILOT payments as of June 30, 2007 are as follows:

Fiscal Year	Lease Amount (\$000)	PILOT Amount (\$000)
2008	\$ 628	\$ 8,616
2009	644	8,853
2010	639	6,394
2011	112	5,069
2012	112	5,212
2013-2017	-	4,642
Total	\$ 2,135	\$ 38,786

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, 2007 and 2006 was as follows:

Project	2007 (\$000)	2006 (\$000)
Mid-Connecticut	\$ 48,478	\$ 48,830
Bridgeport	48,235	42,091
Wallingford	15,035	15,207
Southeast	7,304	8,020
Total	\$ 119,052	\$ 114,148

10. OTHER FINANCING

The Authority has issued several bonds pursuant to bond resolutions 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 on its financial statements. The principal amounts of these bond issues outstanding at June 30, 2007 (excluding portions allocable to Authority purposes) are as follows:



Project	Amount (\$000)
Bridgeport - 1999 Series A	\$ 31,445
Wallingford - 1998 Series A	7,723
Southeast - 1992 Series A - Corp. Credit	30,000
1998 Series A - Project	49,481
2001 Series A - Covanta Southeastern Connecticut Company - I	6,750
2001 Series A - Covanta Southeastern Connecticut Company - II	6,750
	92,981
Total	\$ 132,149

11. SEGMENT INFORMATION

The Authority has four projects 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 these 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 years ended June 30, 2007 and 2006, respectively.

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.



Fiscal Year 2007	Mid-Connecticut (\$000)	Bridgeport (\$000)	Wallingford (\$000)	Southeast (\$000)
Condensed Balance Sheets				
Assets:				
Current unrestricted assets	\$ 62,418	\$ 18,416	\$ 34,069	\$ 9,174
Current restricted assets	52,895	2,869	2,155	2,350
Total current assets	115,313	21,285	36,224	11,524
Non-current assets:				
Restricted cash and cash equivalents	31,205	1,322	16,036	1,079
Investments	468	165	146	-
Capital assets, net	134,515	18,614	2,370	-
Other assets, net	241	61	586	4,033
Total non-current assets	166,429	20,162	19,138	5,112
Total assets	\$ 281,742	\$ 41,447	\$ 55,362	\$ 16,636
Liabilities:				
Current liabilities	\$ 55,907	\$ 8,738	\$ 3,543	\$ 3,308
Long-term liabilities	60,127	13,301	5,650	6,635
Total liabilities	116,034	22,039	9,193	9,943
Net Assets:				
Invested in capital assets, net of related debt	102,369	15,486	-	-
Restricted	24,103	2,995	15,556	649
Unrestricted	39,236	927	30,613	6,044
Total net assets	165,708	19,408	46,169	6,693
Total liabilities and net assets	\$ 281,742	\$ 41,447	\$ 55,362	\$ 16,636
Condensed Statements of Revenues, Expenses, and Change in Net Assets				
Operating revenues	\$ 91,046	\$ 55,784	\$ 22,749	\$ 11,224
Operating expenses	103,771	56,775	17,906	9,973
Depreciation and amortization expense	16,397	854	303	448
Operating (loss) income	(29,122)	(1,845)	4,540	803
Non-operating revenues (expenses):				
Litigation-related settlement gains	40,225	-	-	-
Investment income	5,431	775	2,492	134
Other income (expenses), net	638	2,979	(25)	2
Litigation-related losses	(36,950)	-	-	-
Interest expense	(1,952)	(216)	(71)	(454)
Net non-operating revenues (expense)	7,392	3,538	2,396	(318)
(Loss) income before special item	(21,730)	1,693	6,936	485
Special item:				
Defeasance of debt	(1,148)	-	-	-
(Decrease) increase in net assets	(22,878)	1,693	6,936	485
Total net assets, July 1, 2006	188,586	17,715	39,233	6,208
Total net assets, June 30, 2007	\$ 165,708	\$ 19,408	\$ 46,169	\$ 6,693
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	\$ 54,281	\$ (1,224)	\$ 4,899	\$ (877)
Investing activities	5,043	612	2,299	101
Capital and related financing activities	(60,786)	(2,693)	(1,144)	(874)
Non-capital financing activities	(12)	(30)	(35)	-
Net (decrease) increase	(1,474)	(3,335)	6,019	(1,650)
Cash and cash equivalents, July 1, 2006	129,861	16,097	43,532	8,103
Cash and cash equivalents, June 30, 2007	\$ 128,387	\$ 12,762	\$ 49,551	\$ 6,453



Connecticut Resources Recovery Authority

Fiscal Year 2006	Mid-Connecticut (\$000)	Bridgeport (\$000)	Wallingford (\$000)	Southeast (\$000)
Condensed Balance Sheets				
Assets:				
Current unrestricted assets	\$ 70,981	\$ 17,938	\$ 29,223	\$ 6,841
Current restricted assets	12,740	2,127	1,683	4,248
Total current assets	83,721	20,065	30,906	11,089
Non-current assets:				
Restricted cash and cash equivalents	62,290	1,429	15,342	1,069
Capital assets, net	149,401	19,302	2,091	-
Other assets, net	765	92	879	4,482
Total non-current assets	212,456	20,823	18,312	5,551
Total assets	\$ 296,177	\$ 40,888	\$ 49,218	\$ 16,640
Liabilities:				
Current liabilities	\$ 15,792	\$ 7,982	\$ 3,825	\$ 3,261
Long-term liabilities	91,799	15,191	6,160	7,171
Total liabilities	107,591	23,173	9,985	10,432
Net Assets:				
Invested in capital assets, net of related debt	75,294	14,594	-	-
Restricted	45,183	2,865	14,734	1,104
Unrestricted	68,109	256	24,499	5,104
Total net assets	188,586	17,715	39,233	6,208
Total liabilities and net assets	\$ 296,177	\$ 40,888	\$ 49,218	\$ 16,640
Condensed Statements of Revenues, Expenses, and Change in Net Assets				
Operating revenues	\$ 93,106	\$ 53,827	\$ 22,142	\$ 11,491
Operating expenses	71,108	50,325	17,862	9,617
Depreciation and amortization expense	16,072	849	299	448
Operating income	5,926	2,653	3,981	1,426
Non-operating revenues (expenses):				
Investment income	5,214	591	1,698	117
Other income (expenses)	5,457	65	(7)	-
Interest expense	(4,787)	(299)	(99)	(492)
Net non-operating revenues (expense)	5,884	357	1,592	(375)
Increase in net assets	11,810	3,010	5,573	1,051
Total net assets, July 1, 2005	176,776	14,705	33,660	5,157
Total net assets, June 30, 2006	\$ 188,586	\$ 17,715	\$ 39,233	\$ 6,208
Condensed Statements of Cash Flows				
Net cash provided by (used in):				
Operating activities	\$ 25,963	\$ 3,445	\$ 5,291	\$ 3,239
Investing activities	5,142	588	1,593	9
Capital and related financing activities	(10,977)	(2,609)	(976)	(874)
Non-capital financing activities	(15)	(19)	(7)	-
Net increase	20,113	1,405	5,901	2,374
Cash and cash equivalents, July 1, 2005	109,748	14,692	37,631	5,729
Cash and cash equivalents, June 30, 2006	\$ 129,861	\$ 16,097	\$ 43,532	\$ 8,103



12. SIGNIFICANT EVENTS

During fiscal year 2007, the Authority received a total of \$40.2 million from settlements resulting from various Enron-related lawsuits. The Authority has reported such gains as non-operating revenues in the accompanying statement of revenues, expenses and change in net assets for the fiscal year ended June 30, 2007.

In December 2003, the Towns of New Hartford and Barkhamstead filed suit against the Authority, former board members and delegates, the Authority's former President, and others, seeking alleged damages resulting from the failed Enron transaction as well as equitable relief. In addition to vigorously contesting these claims on its own behalf, the Authority is defending and indemnifying its former President and board members. On August 10, 2005, the Motions to Dismiss of all of the non-Authority defendants were granted; on August 30, 2005, plaintiffs filed an appeal, which is still pending. On March 21, 2006, the court granted the plaintiffs' motion for Class Certification. Trial began on November 13, 2006 and the parties rested on January 11, 2007. On June 19, 2007, the court issued its decision, imposing a constructive trust on the sum of \$35,873,732.25 (a portion of the settlement proceeds received by the Authority during fiscal year 2007 and referenced in the preceding paragraph) and ordering that amount to be forwarded to the plaintiffs, in care of their attorneys, immediately. The court also enjoined the Authority from passing any costs of the failed Enron transaction to the towns, effective for fiscal year 2008 and all subsequent years. On June 20, 2007, the Authority filed an Application for a Stay of Injunction Pending Appeal. On July 6, 2007, the Authority appealed the trial court's decision to the Appellate Court; on July 23, 2007, the appeal was transferred to the Connecticut Supreme Court. On July 25, 2007, the trial judge denied the Authority's Application for a Stay of Injunction Pending Appeal. On August 6, 2007, the Authority filed a Motion for Review of that denial with the Connecticut Supreme Court,

which Motion is currently pending. The trial court retained jurisdiction over the plaintiffs' application for an order enjoining the Authority's implementation of its fiscal year 2008 budget, and held a hearing on September 5-6, 2007. A ruling is expected in October 2007.

Two arbitration hearings between the Authority and the Metropolitan District Commission (the "MDC") on claims asserted by both parties have been conducted in recent years. 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, nor were they awarded, 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 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. 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. As a result, the balance of the escrow account, which was recorded as current restricted cash and cash equivalents and totals approximately \$5.2 million as of June 30, 2006, has been transferred to current unrestricted cash and cash equivalents in the accompanying balance sheet. In addition, the related escrow liability which was approximately \$4.7 million has been reversed and recorded as non-operating revenue in the accompanying statement of revenues, expenses and change in net assets for the fiscal year ended June 30, 2006. The MDC appealed. On December 21, 2006, the Authority and MDC entered into a Settlement Agreement and Mutual Release, pursuant to which MDC agreed to pay the Authority \$500,000, payable either in cash or credits against amounts otherwise due from



the Authority to MDC, in equal yearly installments from 2006 through 2012, and to immediately withdraw its appeal with prejudice, and the parties exchanged mutual releases. The settlement income, at present value, has been recorded as other operating revenue in the accompanying statement of revenues, expenses and change in net assets for the fiscal year ended June 30, 2007.

In July 2006, the Authority submitted a solid waste permit modification application to DEP associated with the Hartford landfill, to 1) revise the closure plan, prescribing a state-of-the-art synthetic cap; 2) revise the grading plan for a section of the east side of the landfill; 3) set a date certain for final delivery of waste of no later than December 31, 2008; and 4) discuss possible passive recreational future uses for the landfill and engage a landscape architect to provide a rendering of these possible activities. A favorable ruling on this permit modification was issued by DEP on March 29, 2007. As of June 30, 2007, there are eighteen months of capacity for non-processible waste and process residue generated at the Mid-Connecticut Resource Recovery Facility ("RRF") and approximately 16 months of capacity for ash residue generated by the RRF. Upon closure of the Hartford landfill, the Mid-Connecticut Project will incur substantial cost increases to transport and dispose of the non-processible waste, process residue and ash residue to other out-of-state facilities. The siting of a new ash landfill in Connecticut would mitigate some of these costs.

On February 2, 2007, the Authority and the City of Hartford executed a Settlement Agreement which resolved a long standing disagreement regarding responsibility for costs associated with closure and post-closure activities at the Hartford landfill. Under the agreement, the Authority assumes the liability, contingent upon certain conditions, for all of the Hartford landfill closure and postclosure costs. In addition, the State of Connecticut capital budget for fiscal year 2008 includes an appropriation of \$15 million for costs associated with closure of the Hartford landfill. Upon passage of the budget, and if approved by the Bond Commission, the

\$15 million will be allocated to the Authority through the state Bond Commission, with \$3 million allocated in fiscal year 2008, and \$12 million allocated in fiscal year 2009.

During fiscal year 2007, the Authority's Mid-Connecticut Project entered into a settlement agreement with a private landowner for the purpose of obtaining control of a subsurface landfill leachate plume including an acquisition of land located in Ellington and East Windsor, Connecticut, that is adjacent to the Authority's closed landfill in Ellington, Connecticut. Conveyance of the property was completed in July 2007, at which time pursuant to the terms of the agreement, the Mid-Connecticut Project paid the private landowner \$2,450,000.

13. CONTINGENCIES

Mid-Connecticut Project:

In January 2006, the Authority's pollution liability insurance carrier, American International Specialty Lines Insurance Company ("AISLIC") settled with numerous commercial and residential neighbors of the Hartford Landfill who had filed suit against the Authority in 2001, claiming 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, 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. On May 4, 2006, AISLIC initiated a declaratory judgment action in federal district court seeking a declaration that AISLIC is not obligated to indemnify the Authority in connection with the settled lawsuit and that AISLIC should be awarded the amount it spent on defense and indemnification of the Authority. The Authority is defending against this action. Discovery is ongoing. The matter is too preliminary to estimate any potential exposure.

The Authority, through the Connecticut Attorney General's office, is pursuing recovery of lost monies from the former financial institutions of Enron and its subsidiaries in



federal court. Management is uncertain of the amounts that may be realized from these claims.

A claim has been made by a town and may be asserted by one other town that the Authority is in violation of its original zoning permits for transfer stations located in those towns. The basis for the claim is that the transfer stations exceeded their permitted capacity. In defense of such a claim, the Authority will argue that the volumes are consistent with the spirit of the original permits. The Authority is presently discussing a resolution of this matter.

Bridgeport Project:

In the early 1990's, the Authority was named as a Potentially Responsible Party in the now-combined federal and State of New Jersey suits to recover the costs of remediation of the landfill known as Combe Fill South. The litigation has been on hold while allocation of responsibility among the hundreds of alleged defendants is assessed through Alternate Dispute Resolution. A preliminary allocation of liability was issued in April 2006, designed to guide the 250+ parties in developing and funding global settlement offers. Counsel reports that there remain many complex issues still to be resolved before meaningful settlement discussions can take place. Counsel advises that, pursuant to the draft report, the "Connecticut Entities" are allocated a site share of 0.4685%, for which they are jointly and severally responsible. During fiscal year 2006, the Authority accrued \$175,000 for this matter and such amount is included in current liabilities in the accompanying balance sheet. This very preliminary calculation is based upon a total estimated government cost claim figure of \$150 million and an equal split among the four viable parties of the Connecticut Group.

Other Issues and Unasserted Claims and Assessments:

In July 2007, the Authority received a copy of a Notice of Claim filed with the State of Connecticut Office of Claims Commissioner by a Bridgeport law firm stating the firm's intent to bring a claim against the Authority for injuries

allegedly sustained at one of the Bridgeport Project transfer stations by a client of the firm on February 3, 2007 and seeking damages in excess of one million dollars. The Authority is gathering information regarding the incident and evaluating its potential responsibility relative to several other potentially responsible parties.

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.

14. ACCOUNTING PRONOUNCEMENT ISSUED BUT NOTE YET EFFECTIVE

The Authority has not completed the process of implementing GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. The Authority is therefore unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted. GASB Statement No. 49 is effective for financial statements for periods beginning after December 15, 2007.

15. SUBSEQUENT EVENTS

On July 1, 2007, the Authority entered into an Energy Purchase Agreement (EPA) with Constellation Energy Commodities Group, Inc., which replaced the agreement with Select. The new EPA provides for the purchase of the first 250,000 MWH of electric energy generated at the Mid-Connecticut project facility through June 30, 2012. Over a five-year term, the estimated value of the contract is \$93,671,000.



Connecticut Resources Recovery Authority

**COMBINING SCHEDULE OF BALANCE SHEETS
AS OF JUNE 30, 2007
(Dollars in Thousands)**

**EXHIBIT A
Page 1 of 2**

ASSETS	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project	Eliminations	Total
CURRENT ASSETS							
Unrestricted Assets:							
Cash and cash equivalents	\$ 1,241	\$ 44,436	\$ 8,579	\$ 31,562	\$ 3,298	\$ -	\$ 89,116
Accounts receivable, net of allowances	59	10,630	9,684	2,201	5,876	-	28,450
Inventory	-	3,349	-	-	-	-	3,349
Prepaid expenses and other current assets	134	3,280	153	306	-	-	3,873
Due from other funds	-	723	-	-	-	(723)	-
Total Unrestricted Assets	1,434	62,418	18,416	34,069	9,174	(723)	124,788
Restricted Assets:							
Cash and cash equivalents	21	52,746	2,861	1,953	2,076	-	59,657
Accrued interest receivable	-	149	8	202	274	-	633
Total Restricted Assets	21	52,895	2,869	2,155	2,350	-	60,290
Total Current Assets	1,455	115,313	21,285	36,224	11,524	(723)	185,078
NON-CURRENT ASSETS							
Restricted cash and cash equivalents	-	31,205	1,322	16,036	1,079	-	49,642
Investments	-	468	165	146	-	-	779
Capital Assets:							
Depreciable:							
Plant	864	163,191	25,274	-	-	-	189,329
Equipment	1,095	202,772	2,861	50	-	-	206,778
	1,959	365,963	28,135	50	-	-	396,107
Less: Accumulated depreciation	(1,124)	(242,043)	(24,721)	(16)	-	-	(267,904)
Total Depreciable, net	835	123,920	3,414	34	-	-	128,203
Nondepreciable:							
Land	-	10,595	15,200	1,979	-	-	27,774
Construction in progress	-	-	-	357	-	-	357
Total Nondepreciable	-	10,595	15,200	2,336	-	-	28,131
Development and bond issuance costs, net	-	241	61	586	4,033	-	4,921
Total Non-Current Assets	835	166,429	20,162	19,138	5,112	-	211,676
TOTAL ASSETS	\$ 2,290	\$ 281,742	\$ 41,447	\$ 55,362	\$ 16,636	\$ (723)	\$ 396,754



Connecticut Resources Recovery Authority

**COMBINING SCHEDULE OF BALANCE SHEETS
AS OF JUNE 30, 2007
(Dollars in Thousands)**

**EXHIBIT A
Page 2 of 2**

LIABILITIES AND NET ASSETS	COMBINING SCHEDULE OF BALANCE SHEETS					Eliminations	Total
	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project		
CURRENT LIABILITIES							
Current portion of:							
Bonds payable, net	\$ -	\$ -	\$ 1,963	\$ 681	\$ 453	\$ -	\$ 3,097
State loans payable	-	2,619	-	-	-	-	2,619
Closure and postclosure care of landfills	-	9,700	651	237	-	-	10,588
Accounts payable, accrued expenses and other liabilities	774	43,588	6,124	2,625	2,855	-	55,966
Due to other funds	723	-	-	-	-	(723)	-
Total Current Liabilities	1,497	55,907	8,738	3,543	3,308	(723)	72,270
LONG-TERM LIABILITIES							
Bonds payable, net	-	15,182	1,707	711	5,235	-	22,835
State loans payable	-	10,701	-	-	-	-	10,701
Closure and postclosure care of landfills	-	34,244	11,594	4,939	-	-	50,777
Other liabilities	-	60,127	13,301	5,650	1,400	-	1,400
Total Long-Term Liabilities	-	116,034	22,039	9,193	6,635	(723)	157,983
TOTAL LIABILITIES	1,497	116,034	22,039	9,193	9,943	(723)	157,983
NET ASSETS							
Invested in capital assets, net of related debt	-	102,369	15,486	-	-	-	117,855
Restricted:							
Tip fee stabilization	-	-	-	15,290	-	-	15,290
Energy generating facility	-	12,012	-	-	-	-	12,012
Debt service reserve funds	-	4,080	1,069	-	79	-	5,228
Cash escrow - litigation-related settlements	-	2,126	-	-	-	-	2,126
Operating and maintenance	-	1,662	-	-	-	-	1,662
Equipment replacement	-	1,662	-	-	-	-	1,662
Select Energy escrow	-	1,000	-	-	-	-	1,000
Debt service funds	-	37	931	-	-	-	968
Shelton landfill future use	-	-	824	-	-	-	824
DEP trust - landfills	-	468	167	146	-	-	781
Recycling education fund	-	542	-	-	-	-	542
Regional recycling center equipment	-	452	-	-	-	-	452
Montrville landfill postclosure	-	-	-	-	402	-	402
Rebate fund	-	-	4	120	168	-	292
Other restricted net assets	21	62	-	-	-	-	83
Total Restricted	21	24,103	2,995	15,556	649	-	43,324
Unrestricted	772	39,236	927	30,613	6,044	-	77,592
Total Net Assets	793	165,708	19,408	46,169	6,693	-	238,771
TOTAL LIABILITIES AND NET ASSETS	\$ 2,290	\$ 281,742	\$ 41,447	\$ 55,362	\$ 16,636	\$ (723)	\$ 396,754



Connecticut Resources Recovery Authority

EXHIBIT B

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007
(Dollars in Thousands)**

	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project	Eliminations	Total
Operating Revenues							
Service charges:							
Members	\$ -	\$ 40,221	\$ 32,267	\$ 8,856	\$ 10,504	\$ -	\$ 91,848
Others	-	18,255	15,172	59	720	(289)	33,917
Energy sales	-	24,067	-	13,790	-	-	37,857
Ash disposal reimbursement	-	-	4,485	-	-	-	4,485
Other operating revenues	-	8,503	3,860	44	-	-	12,407
Total operating revenues	-	91,046	55,784	22,749	11,224	(289)	180,514
Operating Expenses							
Solid waste operations	-	58,221	53,079	16,887	9,869	(289)	137,767
Depreciation and amortization	187	16,397	854	303	448	-	18,189
Maintenance and utilities	-	1,833	560	8	-	-	2,401
Closure and postclosure care of landfills	-	34,194	84	361	-	-	34,639
Project administration	13	9,523	3,052	650	104	-	13,342
Total operating expenses	200	120,168	57,629	18,209	10,421	(289)	206,338
Operating (Loss) Income	(200)	(29,122)	(1,845)	4,540	803	-	(25,824)
Non-Operating Revenues and (Expenses)							
Litigation-related settlements, net	-	39,075	-	-	-	-	39,075
Investment income	56	5,431	775	2,492	134	-	8,888
Other income (expenses), net	245	638	2,979	(25)	2	-	3,839
Litigation-related judgment	-	(35,800)	-	-	-	-	(35,800)
Interest expense	-	(1,952)	(216)	(71)	(454)	-	(2,693)
Net Non-Operating Revenues and (Expenses)	301	7,392	3,538	2,396	(318)	-	13,309
Income (Loss) before Special Item	101	(21,730)	1,693	6,936	485	-	(12,515)
Special Item:							
Defeasance of debt	-	(1,148)	-	-	-	-	(1,148)
Total special item	-	(1,148)	-	-	-	-	(1,148)
Increase (Decrease) in Net Assets	101	(22,878)	1,693	6,936	485	-	(13,663)
Total Net Assets, beginning of year	692	188,586	17,715	39,233	6,208	-	252,434
Total Net Assets, end of year	\$ 793	\$ 165,708	\$ 19,408	\$ 46,169	\$ 6,693	\$ -	\$ 238,771



Connecticut Resources Recovery Authority

**COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(Dollars in Thousands)**

**EXHIBIT C
Page 1 of 2**

	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project	Eliminations	Total
Cash Flows From Operating Activities							
Payments received from providing services	\$ 188	\$ 89,661	\$ 54,322	\$ 22,811	\$ 9,165	\$ (289)	\$ 175,858
Proceeds from settlements	-	40,225	-	-	-	-	40,225
Payments received from other funds	-	204	-	-	-	(204)	-
Payments to suppliers for goods and services	(148)	(72,464)	(54,824)	(17,567)	(9,983)	289	(154,697)
Payments to employees for services	(13)	(3,345)	(722)	(345)	(59)	-	(4,484)
Payments to other funds	(204)	-	-	-	-	204	-
Net Cash (Used in) Provided by Operating Activities	(177)	54,281	(1,224)	4,899	(877)	-	56,902
Cash Flows From Investing Activities							
Interest on investments	54	5,506	775	2,443	101	-	8,879
Purchases of investments	-	(463)	(163)	(144)	-	-	(770)
Net Cash Provided by Investing Activities	54	5,043	612	2,299	101	-	8,109
Cash Flows From Capital and Related Financing Activities							
Proceeds from sales of equipment	-	192	-	-	-	-	192
Payments for landfill closure and postclosure care liabilities	-	(174)	(410)	(129)	-	-	(713)
Acquisition and construction of capital assets	-	(1,492)	(161)	(289)	-	-	(1,942)
Defeasance of debt	-	(275)	-	-	-	-	(275)
Interest paid on long-term debt	-	(2,291)	(277)	(68)	(345)	-	(2,981)
Principal paid on long-term debt	-	(56,746)	(1,845)	(658)	(529)	-	(59,778)
Net Cash Used in Capital and Related Financing Activities	-	(60,786)	(2,693)	(1,144)	(874)	-	(65,497)
Cash Flows From Non-Capital Financing Activities							
Other interest and fees	-	(12)	(30)	(35)	-	-	(77)
Net Cash Used in Non-Capital Financing Activities	-	(12)	(30)	(35)	-	-	(77)



Connecticut Resources Recovery Authority

**COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(Dollars in Thousands)**

**EXHIBIT C
Page 2 of 2**

	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project	Eliminations	Total
Net (decrease) increase in cash and cash equivalents	\$ (123)	\$ (1,474)	\$ (3,335)	\$ 6,019	\$ (1,650)	\$ -	\$ (563)
Cash and cash equivalents, beginning of year	1,385	129,861	16,097	43,532	8,103	-	198,978
Cash and cash equivalents, end of year	\$ 1,262	\$ 128,387	\$ 12,762	\$ 49,551	\$ 6,453	\$ -	\$ 198,415
Reconciliation of Operating (Loss) Income to Net Cash (Used by) Provided by Operating Activities:	\$ (200)	\$ (29,122)	\$ (1,845)	\$ 4,540	\$ 803	\$ -	\$ (25,824)
Operating (loss) income	187	16,226	823	10	-	-	17,246
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:	-	171	31	293	448	-	943
Depreciation of capital assets	-	34,194	84	361	-	-	34,639
Amortization of development and bond issuance costs	152	593	3,032	12	2	-	3,791
Provision for closure and postclosure care of landfills	-	39,075	-	-	-	-	39,075
Other income	-	(35,800)	-	-	-	-	(35,800)
Litigation-related settlements, net	36	166	(4,492)	49	(2,061)	-	(6,302)
Litigation-related judgment	-	70	-	-	-	-	70
Changes in assets and liabilities:	(77)	(2,483)	44	4	-	-	(2,512)
(Increase) decrease in:	-	204	-	-	-	(204)	-
Accounts receivable, net	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-
Prepaid expenses and other current assets	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
(Decrease) increase in:	(71)	30,987	1,099	(370)	(69)	-	31,576
Accounts payable, accrued expenses and other liabilities	(204)	-	-	-	-	204	-
Due to other funds	-	-	-	-	-	-	-
Net Cash (Used in) Provided by Operating Activities	\$ (177)	\$ 54,281	\$ (1,224)	\$ 4,899	\$ (877)	\$ -	\$ 56,902



Connecticut Resources Recovery Authority

COMBINING SCHEDULE OF NET ASSETS
AS OF JUNE 30, 2007
(Dollars in Thousands)

EXHIBIT D
Page 1 of 2

	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project	Total
Net assets invested in capital assets, net of related debt	\$ -	\$ 102,369	\$ 15,486	\$ -	\$ -	\$ 117,855
Restricted net assets:						
Current restricted cash and cash equivalents:						
Cash escrow - litigation-related settlements	-	37,927	-	-	-	37,927
Revenue fund	-	9,772	703	1,404	1,194	13,073
State loans	-	2,619	-	-	-	2,619
Debt service funds	-	141	1,318	475	357	2,291
Select Energy escrow	-	1,000	-	-	-	1,000
Shelton landfill future use	-	-	824	-	-	824
Recycling education fund	-	542	-	-	-	542
Montville landfill postclosure	-	-	-	-	525	525
Regional recycling center equipment	-	452	-	-	-	452
Customer guarantee of payment	-	247	16	74	-	337
Town of Ellington trust - pooled funds	-	46	-	-	-	46
Mercury public awareness	21	-	-	-	-	21
Total current restricted cash and cash equivalents	21	52,746	2,861	1,953	2,076	59,657
Non-current restricted cash and cash equivalents and investments:						
Tip fee stabilization	-	-	-	15,290	-	15,290
Energy generating facility	-	12,012	-	-	-	12,012
State loans	-	10,693	-	-	-	10,693
Debt service reserve funds	-	5,176	1,316	626	911	8,029
Equipment replacement	-	1,662	-	-	-	1,662
Operating and maintenance	-	1,662	-	-	-	1,662
DEP trust - landfills	-	468	167	146	-	781
Rebate fund	-	-	4	120	168	292
Total non-current restricted cash and cash equivalents and investments	-	31,673	1,487	16,182	1,079	50,421
Less liabilities to be paid with current restricted assets:						
Bonds payable, net	-	104	387	475	357	1,323
State loans payable	-	2,619	-	-	-	2,619
Other liabilities	-	45,804	719	1,478	1,317	49,318
Total liabilities to be paid with current restricted assets	-	48,527	1,106	1,953	1,674	53,260
Less liabilities to be paid with non-current restricted assets:						
Bonds payable, net	-	1,096	247	626	832	2,801
State loans payable	-	10,693	-	-	-	10,693
Total liabilities to be paid with non-current restricted assets	-	11,789	247	626	832	13,494
Total restricted net assets	21	24,103	2,995	15,556	649	43,324



Connecticut Resources Recovery Authority

**COMBINING SCHEDULE OF NET ASSETS
AS OF JUNE 30, 2007
(Dollars in Thousands)**

**EXHIBIT D
Page 2 of 2**

	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project	Total
Unrestricted net assets:						
Designated for:						
Postclosure care of landfills	\$ -	\$ 4,457	\$ 11,430	\$ 7,117	\$ -	\$ 23,004
Closure care of landfills	-	11,263	533	-	-	11,796
Future loss contingencies	-	6,995	-	1,047	252	8,294
Future use	-	-	-	6,487	-	6,487
Facility modifications	-	5,461	-	-	-	5,461
Debt service stabilization	-	4,576	-	-	-	4,576
Rolling stock	-	3,956	-	-	-	3,956
Landfill development	-	2,544	-	-	-	2,544
Recycling	-	1,817	407	-	-	2,224
Benefit fund	217	-	-	-	-	217
South Meadows site remediation	-	141	-	-	-	141
Undesignated	555	(1,974)	(11,443)	15,962	5,792	8,892
Total unrestricted net assets	772	39,236	927	30,613	6,044	77,592
Total Net Assets	\$ 793	\$ 165,708	\$ 19,408	\$ 46,169	\$ 6,693	\$ 238,771