CONNECTICUT RESOURCES RECOVERY AUTHORITY

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

ANNUAL FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

This document has been printed on recycled content paper.

THIS PAGE LEFT INTENTIONALLY BLANK

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, 2006 and 2005, 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audits were conducted for the purpose of forming an opinion on CRRA's basic financial statements. The combining financial statements as of and for the year ended June 30, 2006 listed in the table of contents are presented for purposes of additional analysis and are not a required part of the 2006 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 financial statements taken as a whole.

Carlin, Charron & Rosen, LLP

Glastonbury, Connecticut
September 18, 2006

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, 2006 and 2005. 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 2006 total assets increased by $15.3 million or 3.9% over 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. The fiscal year 2005 total assets increased by $0.6 million or 0.2% compared to fiscal year 2004 and total liabilities decreased by $111.3 million or 41.3%. Total assets exceeded total liabilities by $230.8 million as of June 30, 2005 as compared to $118.8 million as of June 30, 2004, or a net increase of $111.9 million.

BALANCE SHEETS
As of June 30,
(In Thousands)

	2006	2005	2004
ASSETS			
Current unrestricted assets	$ 125,572	$ 92,292	$ 88,360
Current restricted assets	20,819	23,779	29,504
Total current assets	146,391	116,071	117,864
Non-current assets:			
Restricted cash and cash equivalents	80,130	81,452	62,521
Capital assets, net	171,721	184,414	198,936
Development and bond issuance costs, net	6,218	7,221	9,204
Total non-current assets	258,069	273,087	270,661
TOTAL ASSETS	$ 404,460	$ 389,158	$ 388,525
LIABILITIES			
Current liabilities	$ 31,705	$ 33,695	$ 47,780
Long-term liabilities	120,321	124,695	221,912
TOTAL LIABILITIES	152,026	158,390	269,692
NET ASSETS			
Invested in capital assets, net of related debt	$ 89,888	$ 100,471	$ 26,096
Restricted	63,907	61,636	64,025
Unrestricted	98,639	68,661	28,712
Total net assets	252,434	230,768	118,833
TOTAL LIABILITIES AND NET ASSETS	$ 404,460	$ 389,158	$ 388,525

FINANCIAL HIGHLIGHTS

The following is an overview of significant changes within the Balance Sheets as of June 30, 2006 and 2005:

ASSETS

Current unrestricted assets increased by $33.3 million or 36.1% over fiscal year 2005, which increased by $3.9 million or 4.4% over fiscal year 2004. The fiscal year 2006 increase is 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
- Increased interest income of $4.1 million as a result of higher market rates; 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); and
- Other, net of ($0.3 million).

The fiscal year 2005 increase was primarily due to increased solid waste service charges at the Bridgeport, Mid-Connecticut and Wallingford projects, increased operating cash balances at the Bridgeport, Mid-Connecticut and Wallingford projects, a grant receivable from the Connecticut Department of Environmental Protection ("CTDEP") as reimbursement for costs previously incurred by the Authority in the closure of the Wallingford Landfill, and increased interest income, offset by a transfer of funds and contributions to the Mid-Connecticut and Wallingford non-current restricted assets for operating reserve requirements; and a distribution of the Wallingford project surplus funds to its participating municipalities.

Current restricted assets decreased by $3.0 million or 12.4% over fiscal year 2005, which decreased by $5.7 million or 19.4% compared to fiscal year 2004. The fiscal year 2006 decrease is 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
- Increased interest income of $0.3 million; and

- Other, net of $0.5 million.

The fiscal year 2005 decrease from 2004 was primarily due to decreased debt service fundings in the Mid-Connecticut project as a result of the defeasance of debt and in the Wallingford and Southeast projects as a result of bond redemptions.

Non-current assets decreased by $15.0 million or 5.5% over fiscal year 2005, which increased by $2.4 million or 0.9% compared to fiscal year 2004. The fiscal year 2006 decrease is due to:

- Restricted cash and cash equivalents decreased by $1.3 million compared to fiscal year 2005 due to:

    - Increased interest income of $2.5 million as a result of higher market rates ; 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; offset by:
    - 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.

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

- Capital assets decreased by $12.7 million compared to fiscal year 2005, which decreased by $14.5 million compared to fiscal year 2004. The fiscal year 2006 decrease is 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 construction in progress, plant improvements and equipment purchases. The fiscal year 2005 decrease was due to depreciation expense of $16.8 million offset by $2.3 million in plant improvements and equipment purchases.
- Development and bond issuance costs decreased by $1.0 million compared to fiscal year 2005, which decreased by $2.0 million compared to fiscal year 2004. The fiscal year 2006 decrease is due to amortization expense. The fiscal year 2005 decrease was due to amortization expense and the write-off of unamortized bond issuance costs related to the Mid-Connecticut defeasance of debt.

LIABILITIES

Current liabilities decreased by $2.0 million or 5.9% compared to fiscal year 2005, which decreased by $14.1 million or 29.5% compared to fiscal year 2004. The fiscal year 2006 decrease is primarily due to increased accounts payable and accrued expenses ($2.6 million) offset by 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.

The fiscal year 2005 decrease was due to a $16.2 million decrease in the current portion of bonds payable as a result of the Mid-Connecticut defeasance of debt and the Wallingford and Southeast bond redemptions offset by an increase in the current portion of the State loans payable as a result of scheduled principal payments due on prior State loans drawdowns.

Long-term liabilities decreased by $4.4 million or 3.5% compared to fiscal year 2005 which decreased by $97.2 million or 43.8% compared to fiscal year 2004. The fiscal year 2006 decrease is due to:

- <u>Long-term portion of bonds payable, net</u> decreased by $2.7 million compared to fiscal year 2005, which decreased by $101.5 million compared to fiscal year 2004. The fiscal year 2006 decrease is due to regular principal payments due on Authority bonds. The fiscal year 2005 decrease was due to:
    - Defeasance of debt: Mid-Connecticut System Bonds 1996 Series A Bonds ($81.5 million), 1997 Series A Bonds ($2.1 million) and 2001 Series A Bonds ($13.2 million); and
    - Bond redemptions: Wallingford Resources Recovery Project 1991 Series One Subordinated Bonds ($0.5 million) and Southeast Project 1989 Series A Bonds ($2.0 million); and
    - Regular principal payments due on Authority bonds.
- <u>State loans payable</u> decreased by $2.6 million over fiscal year 2005, which increased by $5.3 million over fiscal year 2004. The fiscal year 2006 decrease is due to regular principal payments on State loans during the fiscal year 2006. The fiscal year 2005 increase was due to additional drawdowns during the first six months of fiscal year 2005. There have been no drawdowns on the State loans since January 2005.
- <u>Closure and postclosure care of landfills</u> increased by $1.1 million compared to fiscal year 2005, which decreased by $0.7 million compared to fiscal year 2004. The fiscal year 2006 increase is primarily due to 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) offset by an increase in projected costs at the Shelton landfill ($1.6 million) as a result of increases in general engineering and maintenance services. The fiscal year 2005 decrease was due to a reduction in the long-term liability accounts as a result of payments for the Ellington, Shelton and Wallingford landfills. In addition, there were no significant increases in projected costs for the Ellington, Hartford, Shelton, Waterbury and Wallingford landfills during fiscal year 2005.
- <u>Other liabilities</u> remained fairly constant, decreasing by $98,000 and $319,000 over the fiscal years 2006 and 2005, respectively.

SUMMARY OF OPERATIONS AND CHANGE IN NET ASSETS

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
Fiscal Years Ended June 30,
(In Thousands)

	2006	2005	2004
Operating revenues	$ 180,093	$ 168,941	$ 165,418
Operating expenses	148,449	137,443	135,482
Excess before depreciation and amortization and other non-operating revenues and (expenses)	31,644	31,498	29,936
Depreciation and amortization	17,850	17,864	17,887
Income before other non-operating revenues and (expenses), net	13,794	13,634	12,049
Non-operating revenues and (expenses), net	7,872	75,927	(10,705)
Income before special items	21,666	89,561	1,344
Special items:			
Gain on sale of Enron claims	-	28,502	-
Early retirement/defeasance of debt	-	(6,128)	-
Increase in net assets	21,666	111,935	1,344
Total net assets, beginning of year	230,768	118,833	117,489
Total net assets, end of year	$ 252,434	$ 230,768	$ 118,833

Operating revenues increased by $11.2 million or 6.6% during fiscal year 2006 over fiscal year 2005 and $3.5 million or 2.1% from fiscal year 2004 to fiscal year 2005. The fiscal year 2006 increase was primarily due to a $4.6 million increase in service changes due to increased member and contract deliveries, a $4.1 million increase in energy revenues primarily due to an increase in contract rates and an increase in recycling sales due to the favorable recycling sales market. The fiscal year 2005 increase was due to a $6.2 million increase in service charges due to tip fee increases at three of the four Authority projects (see "Authority Rates and Charges," herein) and increases in contracted waste deliveries. There was also a $0.5 million increase due to favorable recycling sales. These increases were offset by lower energy revenues of $3.2 million.

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. Operating expenses increased during fiscal year 2005 by $2.0 million or 1.4% compared to fiscal year 2004 due to an increase in waste deliveries, costs associated with capital improvements, higher legal expenses, and an increase in enforcement and scale staffing at the projects.

Depreciation and amortization remained fairly constant, decreasing by $14,000 and $23,000 over fiscal years 2005 and 2004, respectively.

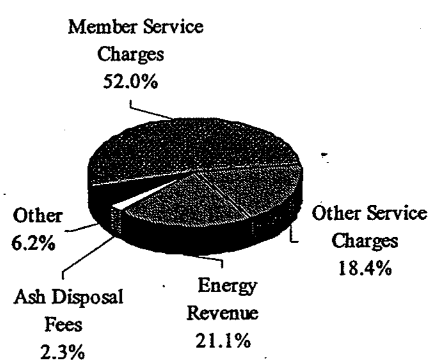
Non-operating revenues, net decreased by $68.1 million during fiscal year 2006 primarily due to Enron claims of $82.8 million received in fiscal year 2005 offset by increased investment income, lower interest expense, and increased other income, net. Non-operating revenues, net increased by $86.6 million during fiscal year 2005 primarily due to the Enron claims of $82.8 million, increased investment income and lower interest expense, offset by increased other expense, net.

Special item – Gain on sale of Enron claims: There was no such special item during fiscal year 2006 as compared to fiscal year 2005. The fiscal year 2005 special item represents proceeds from the sale of the Enron claims to a major financial institution with a significant presence in the distressed debt claims markets. Such sale resulted in a premium of 34.4% or $28.5 million over the court approved estimated value of the Authority's Enron claims of $82.8 million.

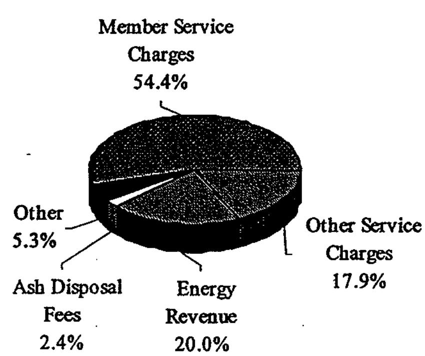
Special item – Early retirement/defeasance of debt: There was no such special item during fiscal year 2006 as compared to fiscal year 2005. The fiscal year 2005 special item is attributable to the write-off of unamortized amounts such as bond issuance costs and other deferred amounts related to the Mid-Connecticut 1996 Series A Bonds, 1997 Series A Bonds and 2001 Series A Bonds, which were partially or fully defeased, plus the Wallingford Project 1991 Series One Subordinated Bonds which were redeemed during fiscal year 2005.

SUMMARY OF OPERATING REVENUES

The following charts show the major sources and the percentage of operating revenues for the fiscal years ended June 30, 2006 and 2005:



Fiscal Year 2006



Fiscal Year 2005

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 production makes up another 21.1% of operating revenues. During fiscal year 2005, Solid Waste tipping fees (member service and other service charges) plus ash disposal reimbursement accounted for nearly 75% of the Authority's operating revenues. Energy production made up another 20.0% 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)

	2006	2006 Percent of Total	2005	2006 Increase/ (Decrease) from 2005	2006 Percent Increase/ (Decrease)	2004	2005 Increase/ (Decrease) from 2004	2005 Percent Increase/ (Decrease)
Operating:								
Member Service Charges	$ 93,513	48.3% $	91,894 $	1,619	1.8% $	88,541 $	3,353	3.8%
Other Service Charges	33,186	17.1%	30,223	2,963	9.8%	27,384	2,839	10.4%
Energy Revenue	37,945	19.6%	33,798	4,147	12.3%	36,998	(3,200)	-8.6%
Ash Disposal Reimbursement	4,229	2.2%	4,025	204	5.1%	4,031	(6)	-0.1%
Other Operating Revenue	11,220	5.8%	9,001	2,219	24.7%	8,464	537	6.3%
Total Operating Revenues	180,093	93.0%	168,941	11,152	6.6%	165,418	3,523	2.1%
Non-Operating:								
Enron Claims Settlement	-	0.0%	82,760	(82,760)	-100.0%	-	82,760	100.0%
Investment Income	7,664	4.0%	4,471	3,193	71.4%	1,623	2,848	175.5%
Other Income	5,980	3.1%	1,884	4,096	217.4%	184	1,700	923.9%
Total Non-Operating Revenues	13,644	7.0%	89,115	(75,471)	-84.7%	1,807	87,308	4831.7%
Special Item:								
Gain on Sale of Enron Claims	-	0.0%	28,502	(28,502)	-100.0%	-	28,502	100.0%
TOTAL	$ 193,737	100.0% $	286,558 $	(92,821)	-32.4% $	167,225 $	119,333	71.4%

Overall, fiscal year 2006 total revenues decreased by $92.8 million or 32.4% over fiscal year 2005. Fiscal year 2005 total revenues rose by $119.3 million or 71.4% over fiscal year 2004, largely reflective of the Enron claims. The following discusses the major changes in operating and non-operating revenues (including the special item for the fiscal year ended June 30, 2005) of the Authority:

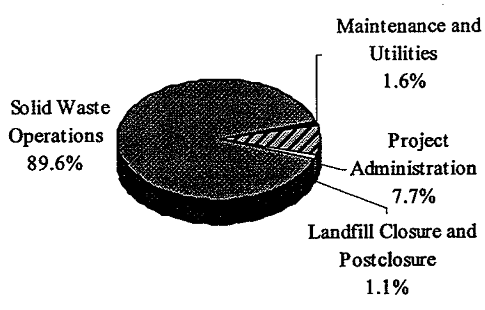
- Member service charges increased by $1.6 million in fiscal year 2006 and $3.4 million in fiscal year 2005. These increases reflect the increase of the tipping fee enacted at the Bridgeport and Wallingford projects in fiscal year 2006 and tipping fee increases enacted at the Bridgeport, Mid-Connecticut and Wallingford projects in fiscal year 2005.
- Other service charges to both contract towns and spot waste haulers, increased by $3.0 million from fiscal year 2005 to 2006. This is similar to the $2.8 million increase in other service charges from fiscal year 2004 to 2005. The fiscal year 2006 increase is due to the continued efforts of the Authority to contract for additional waste at the Bridgeport project. The fiscal year 2005 increase was due to contracting additional waste at the Bridgeport project and higher tipping fees for contract towns at the Mid-Connecticut project.

- Energy revenue increased by $4.1 million during fiscal year 2006 and decreased by $3.2 million during fiscal year 2005. The fiscal year 2006 increase reflects the higher rates at the Mid-Connecticut, Southeast and Wallingford projects. The fiscal year 2005 decrease reflects lower electrical generation due to poor plant performance and a lower electricity contract rate during the 2005 fiscal year at the Mid-Connecticut project.
- Other operating revenue increased by $2.2 million in fiscal year 2006 and $537,000 in fiscal year 2005. Both the fiscal year 2005 and 2006 increases were the result of favorable recycling sales markets.
- Enron claims settlement of $82.8 million represents the value of the Enron claims that was awarded to the Authority from the bankruptcy court during fiscal year 2005 (see "Enron Matters" section herein).
- Investment income increased $3.2 million from fiscal year 2005 to 2006 and $2.8 million from fiscal 2004 to 2005 due to overall improved market returns and increased balances.
- 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). Other income for fiscal year 2005 of $1.9 million represented a grant from the CTDEP for landfill closure costs incurred by the Authority to close the Wallingford landfill ($1.0 million) (see "Landfill Activity" section herein), funds authorized for release by the Southeastern Connecticut Regional Resources Recovery Authority from the restricted Montville Landfill Postclosure Fund to cover a fiscal year 2004 operating deficit and landfill postclosure expenses ($508,000), plus a settlement with an insurance company for contingent commissions or overrides and sales of equipment and miscellaneous income ($376,000).

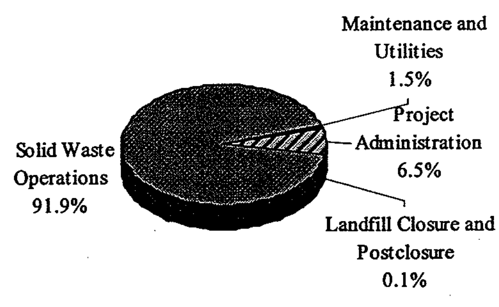
Special item – Gain on sale of Enron claims occurred during fiscal year 2005 and is discussed on page 8 of this MD&A.

SUMMARY OF OPERATING EXPENSES

The following charts show the major sources and the percentage of operating expenses for the fiscal years ended June 30, 2006 and 2005:



Fiscal Year 2006



Fiscal Year 2005

Solid Waste Operations are the major component of the Authority's operating expenses, accounting for 89.6% of operating expenses in fiscal year 2006. During fiscal year 2005, Solid Waste Operations accounted for 91.9% of operating expenses.

A summary of operating expenses and non-operating expenses (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 EXPENSES AND SPECIAL ITEM
Fiscal Years Ended June 30,
(In Thousands)

	2006	2006 Percent of Total	2005	2006 Increase/ (Decrease) from 2005	2006 Percent Increase/ (Decrease)	2004	2005 Increase/ (Decrease) from 2004	2005 Percent Increase/ (Decrease)
Operating:								
Solid Waste Operations	$ 133,026	77.3%	$ 126,322	$ 6,704	5.3%	$ 124,662	$ 1,660	1.3%
Maintenance and Utilities	2,313	1.3%	2,037	276	13.5%	1,697	340	20.0%
Project Administration	11,481	6.7%	8,904	2,577	28.9%	7,234	1,670	23.1%
Landfill Closure and Postclosure	1,629	0.9%	180	1,449	805.0%	1,889	(1,709)	-90.5%
Total Operating Expenses	148,449	86.2%	137,443	11,006	8.0%	135,482	1,961	1.4%
Depreciation	17,850	10.4%	17,864	(14)	-0.1%	17,887	(23)	-0.1%
Non-Operating:								
Interest Expense	5,677	3.3%	10,022	(4,345)	-43.4%	12,482	(2,460)	-19.7%
Other Expenses	95	0.1%	3,166	(3,071)	-97.0%	30	3,136	10453.3%
Total Non-Operating Expenses	5,772	3.4%	13,188	(7,416)	-56.2%	12,512	676	5.4%
Special Item:								
Early Retirement/Defeasance of Debt	-	0.0%	6,128	(6,128)	-100.0%	-	6,128	100.0%
TOTAL	$ 172,071	100.0%	$ 174,623	$ (2,552)	-1.5%	$ 165,881	$ 8,742	5.3%

The Authority's total expenses decreased by $2.6 million or 1.5% between fiscal year 2006 and 2005. Fiscal year 2005 total expenses increased by $8.7 million or 5.3% from fiscal year 2004. Notable differences between the fiscal years include:

- Solid waste operations increased by $6.7 million from fiscal year 2005 to 2006 primarily due to:
  - o 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
  - o Operating expenses at the Bridgeport project increased primarily due to the additional contract waste deliveries; and
  - o Operating expenses at the Wallingford project increased due to 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.

From fiscal year 2004 to 2005, solid waste operations increased by $1.7 million primarily due to increased deliveries at the Bridgeport facility.

- Maintenance and utilities expenses increased $276,000 during fiscal year 2006 primarily due to a one-time expense for the removal of a fence and other miscellaneous expenses at the Hartford landfill. During fiscal year 2005, maintenance and utilities increased $340,000 primarily due to extensive conveyor rebuilds at the Mid-Connecticut facility.

- Project administration costs increased $2.6 million during fiscal year 2006 over fiscal year 2005 and $1.7 million during fiscal year 2005 over fiscal year 2004. During fiscal year 2006, this increase is due to higher legal expenses as a result of on-going legal activity associated with the Enron bankruptcy 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. During fiscal year 2005, this increase was due to higher legal expenses at the Mid-Connecticut project due to on-going legal activity associated with the Enron bankruptcy and the addition of enforcement staff and scalehouse operators.

- Landfill closure and postclosure costs increased by $1.4 million between fiscal year 2005 and 2006 due to increased projected costs as a result of increases in general engineering and maintenance services at the Shelton landfill. Between fiscal years 2004 and 2005, landfill closure and postclosure care costs decreased by $1.7 million primarily due to lower closure and postclosure care costs recognized in fiscal year 2005 as a result of no significant increases in projected costs for all five landfills.

- Interest expense decreased by $4.3 million during fiscal year 2006 and $2.5 million during fiscal year 2005 due to decreases in the principal amount of bonds outstanding.

- Other expenses of $95,000 represents trustee fees, letter of credit fees and miscellaneous expenses. Other expenses during fiscal year 2005 were $3.1 million representing the Wallingford project rebate to its participating municipalities ($1,177,000), a settlement with the Bridgeport project's operator ($1,850,000), trustee fees and letter of credit fees. Other expenses during fiscal year 2004 were $30,000 representing trustee fees, letter of credit fees and miscellaneous expenses.

- Early retirement/defeasance of debt occurred during fiscal year 2005 and is discussed on page 8 of this MD&A.

CAPITAL ASSETS

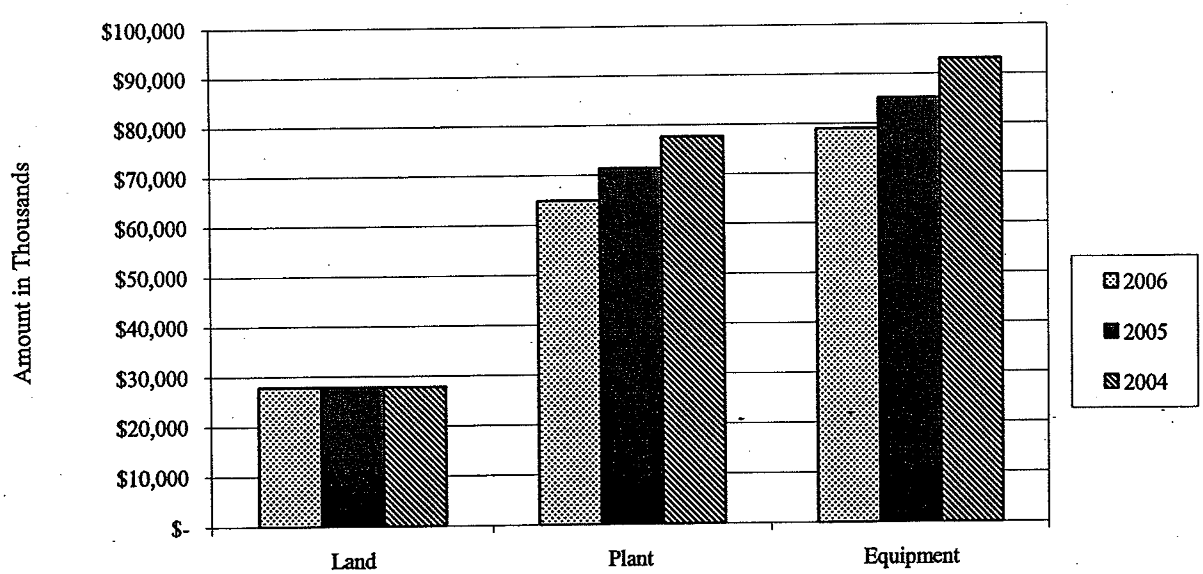
The Authority's investment in capital assets for its activities as of June 30, 2006 and 2005 totaled $171.7 million and $184.4 million, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, roadways, equipment, gas and steam turbines, rolling stock and vehicles. The total fiscal year 2006 and 2005 decrease in the Authority's investment in capital assets was 6.9% and 7.3%, respectively. The decrease is due to depreciation expense offset by construction in progress, plant improvements and equipment purchases.

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)

	2006	2005	2004
Land	$ 27,774	$ 27,774	$ 27,774
Plant	64,875	71,380	77,593
Equipment	78,951	85,189	93,068
Construction in progress	121	71	501
Totals	$ 171,721	$ 184,414	$ 198,936



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

ENRON MATTERS

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.

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. As of June 30, 2006, the Authority had drawn down $21.5 million of the authorized State loans and had a principal balance of $15.9 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

During calendar year 2004, the Authority entered into a contract with an environmental engineering firm to conduct a comprehensive landfill siting investigation. Their investigation is complete and their report has identified potential sites within the State that are technically and environmental amenable to permitting and constructing an ash residue and/or bulky waste landfill. During calendar year 2005 and continuing to the current time, the Authority began an initiative to secure several parcels of land associated with two different sites. The Authority is continuing its efforts to secure these parcels of land.

As of June 30, 2006, there are approximately seven months of capacity remaining at the Hartford landfill for non-processible waste and process residue generated at the Mid-Connecticut Resource Recovery Facility ("RRF") and there are approximately 27 months of capacity remaining at the Hartford landfill for ash residue generated by the Mid-Connecticut RRF. During fiscal year 2006, the Authority engaged an engineering consulting firm to develop a closure plan for the 80 acre municipal solid waste/bulky waste area at the Hartford landfill. The Authority submitted a solid waste permit modification application to the CTDEP in July 2006 to 1) revise the closure plan, prescribing a state-of-the-art synthetic (low linear density polyethylene) 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 and the associated revised grading plan by the CTDEP will provide approximately 300,000 additional cubic yards of capacity for disposal of the process residue and non-processible wastes generated at the Mid-Connecticut RRF, effectively providing capacity through the end of calendar year 2008.

It is anticipated that the CTDEP will complete their review by October/November 2006, after which they will issue a Notice of Tentative Determination ("NTD"). The Authority is optimistic that the CTDEP will concur with the Authority's proposed modifications in its NTD, after which the proposal will go out for public comment.

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

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

METROPOLITAN DISTRICT COMMISSION ARBITRATION RULING

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

The first arbitration hearing was held in the fall of 2004 regarding the Authority's right to hire replacement workers at the Mid-Connecticut project transfer stations and for transportation services. The arbitrators ruled that the Authority has the right to replace the MDC workers. The MDC did not seek, 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 has an appeal pending.

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. On March 21, 2006, the court granted the plaintiffs' motion for Class Certification. On August 28, 2006, the court denied defendant's motions to consolidate the case with related matters and to implead two of the defendant's former law firms. On September 11, 2006, the court denied defendant's motion for summary judgment. The matter is currently scheduled for trial beginning October 25, 2006.

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	Bridgeport[1]		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

LONG-TERM DEBT ISSUANCE, ADMINISTRATION AND CREDIT RATINGS

As detailed in the table on page 18, as of the fiscal year ended June 30, 2006, the Authority had $257.2 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, $49.0 million of the outstanding bonds pertaining to the Bridgeport project, $11.4 million of the outstanding bonds pertaining to the Wallingford project and $53.7 million of the outstanding bonds pertaining to the Southeast project do not appear on the books of the Authority as these bonds were issued to fund construction of waste processing facilities operated by independent contractors who have commitments to repay the debt that is not allocable to Authority purposes.

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, 2006.

The ratings of the Authority's outstanding bonds were unchanged during the fiscal year ended June 30, 2006.

[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.

Additional information on the Authority's long-term debt can be found in Note 4 on pages 32 – 35 of this report.

STATUS OF OUTSTANDING BONDS ISSUED AS OF JUNE 30, 2006

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	8/20/1996	11/15/12	209,675	$69,415	$69,415
2004 State Loan Borrowings (cumulative)[2]	NR	NR	--	--	various	12/01/12	12,842	9,122	9,122
2005 State Loan Borrowings (cumulative)[2]	NR	NR	--	--	various	06/01/12	8,659	6,817	6,817
								85,354	85,354
BRIDGEPORT PROJECT									
1999 Series A - Project Refinancing	Aaa	AAA	MBIA	--	08/31/99	01/01/09	141,695	50,925	1,970
2000 Series A - Refinancing (partial insurance)	A3/Aaa	A+/AAA	MBIA	--	08/01/00	01/01/09	9,200	3,535	3,535
								54,460	5,505
WALLINGFORD PROJECT									
1998 Series A - Project Refinancing	Aaa	AAA	Ambac	--	10/23/98	11/15/08	39,475	13,420	2,055
								13,420	2,055
SOUTHEAST PROJECT									
1998 Series A - Project Refinancing	Aaa	AAA	MBIA	X	08/18/98	11/15/15	87,650	60,430	6,725
CORPORATE CREDIT REVENUE BONDS									
1992 Series A - Corporate Credit	Ba2	BB+	--	--	09/01/92	11/15/22	30,000	30,000	0
2001 Series A - Covanta Southeastern Connecticut Company-I[3]	Ba2	NR	--	--	11/15/01	11/15/15	6,750	6,750	0
2001 Series A - Covanta Southeastern Connecticut Company-II[3]	Ba2	NR	--	--	11/15/01	11/15/15	6,750	6,750	0
								103,930	6,725
TOTAL PRINCIPAL BONDS OUTSTANDING								$257,164	$99,639

[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.
[3] Formerly American Ref-Fuel Company.
NR = Not Rated

On February 24, 2005, the Authority's Board of Directors authorized the establishment of a Debt Service Stabilization Fund to be funded by the excess revenue expected to be generated by the bond defeasance (described in Enron Matters on page 14) 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, excess 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.

REQUESTS FOR INFORMATION

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

THIS PAGE LEFT INTENTIONALLY BLANK

BALANCE SHEETS
AS OF JUNE 30, 2006 AND 2005
(Dollars in Thousands)

	2006	2005
ASSETS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	$ 98,644	$ 64,119
Accounts receivable, net of allowance	22,148	23,135
Inventory	3,419	3,796
Prepaid expenses	1,361	1,242
Total Unrestricted Assets	125,572	92,292
Restricted Assets:		
Cash and cash equivalents	20,204	23,454
Accrued interest receivable	615	325
Total Restricted Assets	20,819	23,779
Total Current Assets	146,391	116,071
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	80,130	81,452
Capital Assets:		
Depreciable, net	143,826	156,569
Nondepreciable	27,895	27,845
Development and bond issuance costs, net	6,218	7,221
Total Non-Current Assets	258,069	273,087
TOTAL ASSETS	$ 404,460	$ 389,158

BALANCE SHEETS
AS OF JUNE 30, 2006 AND 2005
(Dollars in Thousands)

	2006	2005
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of:		
Bonds payable, net	$ 2,929	$ 2,766
State loans payable	2,619	2,619
Closure and postclosure care of landfills	1,420	1,529
Accounts payable and accrued expenses	24,615	22,021
Other current liabilities	122	4,760
Total Current Liabilities	31,705	33,695
LONG-TERM LIABILITIES		
Bonds payable, net	79,499	82,227
State loans payable	13,320	15,939
Closure and postclosure care of landfills	26,019	24,948
Other liabilities	1,483	1,581
Total Long-Term Liabilities	120,321	124,695
TOTAL LIABILITIES	152,026	158,390
NET ASSETS		
Invested in capital assets, net of related debt	89,888	100,471
Restricted	63,907	61,636
Unrestricted	98,639	68,661
Total Net Assets	252,434	230,768
TOTAL LIABILITIES AND NET ASSETS	$ 404,460	$ 389,158

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005 (Dollars in Thousands)

EXHIBIT II

	2006	2005
Operating Revenues		
Service charges:		
Members	$ 93,513	$ 91,894
Others	33,186	30,223
Energy generation	37,945	33,798
Ash disposal reimbursement	4,229	4,025
Other operating revenues	11,220	9,001
Total operating revenues	180,093	168,941
Operating Expenses		
Solid waste operations	133,026	126,322
Depreciation and amortization	17,850	17,864
Maintenance and utilities	2,313	2,037
Closure and postclosure care of landfills	1,629	180
Project administration	11,481	8,904
Total operating expenses	166,299	155,307
Operating Income	13,794	13,634
Non-Operating Revenues and (Expenses)		
Enron claims	-	82,760
Investment income	7,664	4,471
Other income (expenses), net	5,885	(1,282)
Interest expense	(5,677)	(10,022)
Net Non-Operating Revenues	7,872	75,927
Income before Special Items	21,666	89,561
Special Items:		
Gain on sale of Enron claims	-	28,502
Early retirement/defeasance of debt	-	(6,128)
Total special items	-	22,374
Increase in Net Assets	21,666	111,935
Total Net Assets, beginning of year	230,768	118,833
Total Net Assets, end of year	$ 252,434	$ 230,768

The accompanying notes are an integral part of these financial statements

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(Dollars in Thousands)

EXHIBIT III

	2006	2005
Cash Flows From Operating Activities		
Payments received from providing services	$ 186,942	$ 169,994
Payments to suppliers for goods and services	(144,661)	(135,263)
Payments to municipalities for rebates	-	(1,177)
Payments to employees for services	(4,226)	(4,043)
Net Cash Provided by Operating Activities	38,055	29,511
Cash Flows From Investing Activities		
Proceeds from sale of Enron claims	-	111,262
Interest on investments	7,375	4,290
Net Cash Provided by Investing Activities	7,375	115,552
Cash Flows From Capital and Related Financing Activities		
Proceeds from State loans	-	8,659
Proceeds from sales of equipment	312	17
Payments for landfill closure and postclosure care liabilities	(667)	(852)
Acquisition and construction of capital assets	(4,188)	(2,249)
Payment for early retirement/defeasance of debt	-	(4,501)
Interest paid on long-term debt	(5,399)	(10,373)
Principal paid on long-term debt	(5,494)	(121,025)
Net Cash Used in Capital and Related Financing Activities	(15,436)	(130,324)
Cash Flows From Non-Capital Financing Activities		
Other interest and fees	(41)	93
Net Cash Provided by (Used in) Non-Capital Financing Activities	(41)	93
Net increase in cash and cash equivalents	29,953	14,832
Cash and cash equivalents, beginning of year	169,025	154,193
Cash and cash equivalents, end of year	$ 198,978	$ 169,025
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating income	$ 13,794	$ 13,634
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	16,845	16,786
Amortization of development and bond issuance costs	1,005	1,078
Provision for closure and postclosure care of landfills	1,629	180
Other income (expenses)	5,647	(1,409)
(Increase) decrease in:		
Accounts receivable, net	987	(2,082)
Inventory	377	(255)
Prepaid expenses	(119)	212
(Decrease) increase in:		
Accounts payable, accrued expenses and other liabilities	(2,110)	1,367
Net Cash Provided by Operating Activities	$ 38,055	$ 29,511

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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, 2006, 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 the State legislature.

The State Treasurer continues to approve the issuance of all Authority bonds and notes. The State is contingently liable to restore deficiencies in debt service 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:

<u>Mid-Connecticut Project</u>

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

In conjunction with the deregulation of the State's electric industry, the Authority acquired from the Connecticut Light & Power Company ("CL&P") four Pratt & Whitney Twin-Pac peaking 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 services to 19 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 15 Connecticut municipalities in the eastern portion of the State through service contract arrangements. The Authority owns the Resources Recovery Facility. It is leased to a private vendor under a long-term lease. The private vendor has beneficial ownership of the facility through this arrangement. The vendor is obligated to operate and maintain the facility and service the debt (other than the portion allocable to Authority purposes for which the Authority is responsible). The Authority derives its revenues from service fees charged to participating municipalities and other system users. The Authority pays the vendor a contractually determined service fee. Electric energy revenues and certain other service charges are accrued by the vendor with certain contractually prescribed credits payable to the Authority for these revenue types.

General Fund

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

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

The Authority is considered 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 $558,000 and $640,000 at June 30, 2006 and 2005, 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, 2006 and 2005 are summarized as follows:

Inventories	2006 ($000)	2005 ($000)
Spare Parts	$ 3,224	$ 3,583
Coal	195	213
Total	$ 3,419	$ 3,796

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, 2006 and 2005, development and bond issuance costs for the projects are as follows:

Project	2006 ($000)	2005 ($000)
Development Costs:		
Mid-Connecticut	$ 3,277	$3,277
Wallingford	5,667	5,667
Southeast	10,006	10,006
	18,950	18,950
Less accumulated amortization:		
Mid-Connecticut	2,965	2,807
Wallingford	4,817	4,534
Southeast	6,084	5,692
	13,866	13,033
Total development costs, net	$ 5,084	$5,917
Bond Issuance Costs:		
Mid-Connecticut	$ 1,087	$1,087
Bridgeport	275	275
Wallingford	105	105
Southeast	1,008	1,008
	2,475	2,475
Less accumulated amortization:		
Mid-Connecticut	634	559
Bridgeport	183	153
Wallingford	76	67
Southeast	448	392
	1,341	1,171
Total bond issuance costs, net	$ 1,134	$1,304
Totals, net	$ 6,218	$7,221

J. Capital Assets

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

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

The Authority's capitalization threshold is $1,000. 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, sick pay and other employee benefit amounts is included in accounts payable and accrued expenses in the accompanying balance sheets.

L. Net Assets

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

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

Further, unrestricted net assets may be divided into designated and undesignated portions. Designated net assets represent the Authority's self-imposed limitations on the use of otherwise unrestricted net assets. Unrestricted net assets have been designated by the Board of Directors of the Authority for various purposes and such designations totaled $62,871 and $38,795 as of June 30, 2006 and 2005, respectively.

Restrictions of net assets are limited to outside third party restrictions and represent the net assets that have been legally identified for specific purposes. Restricted net assets at June 30, 2006 and 2005 are summarized as follows:

Restricted Net Assets	2006 ($000)	2005 ($000)
Energy generating facility	$ 20,962	$ 20,809
Debt service reserve	19,565	19,129
Tip fee stabilization	14,481	13,875
Operating and maintenance	1,575	1,512
Equipment replacement	1,575	1,512
Debt service funds	1,096	1,019
Select Energy escrow	1,000	1,000
Shelton landfill future use	792	554
DEP trust - landfills	742	715
Revenue funds	662	344
Regional recycling center equipment	429	374
Recycling education fund	417	346
Rebate funds	277	266
Montville landfill postclosure	205	25
State loans	59	124
Other Restricted Net Assets	70	32
Total	$ 63,907	$61,636

M. Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the current year presentation.

2. CASH DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist of the following as of June 30, 2006 and 2005:

	2006 ($000)	2005 ($000)
Unrestricted:		
Cash deposits	$1,487	$1,419
Cash equivalents:		
STIF *	97,157	62,700
	98,644	64,119
Restricted – current:		
Cash deposits	1,348	338
Cash equivalents:		
STIF *	16,288	20,402
Money Market Funds	2,568	2,714
	20,204	23,454
Restricted – non-current:		
Cash equivalents:		
STIF *	79,062	80,302
U.S. Treasuries	741	715
Money Market Funds	327	435
	80,130	81,452
Total:	$198,978	$169,025

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

A. Cash Deposits – Custodial Credit Risk

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

As of June 30, 2006 and 2005 $4.5 million and $4.4 million, respectively, of the Authority's bank balance of cash deposits were exposed to custodial credit risk as follows:

	2006 ($000)	2005 ($000)
Uninsured and Uncollateralized	$ 3,985	$ 3,866
Uninsured but collateralized with securities held by the pledging bank's trust department or agent but not in the Authority's name	$ 503	$ 573
Total	$ 4,488	$4,439

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

Investments in the Short Term Investment Fund ("STIF"), U.S. Treasuries and Money Market Funds as of June 30, 2006 and 2005, 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, 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

As of June 30, 2005, the Authority's investments consisted of the following debt securities:

Investment Type	Fair Value ($000)	Investment Maturities (In Years) Less than 1	1 to 5	6 to 10	More than 10
STIF	$163,404	$163,404	$0	$0	$0
U.S. Treasuries	715	715	0	0	0
Money Market Funds	3,149	3,149	0	0	0
Total	$167,268	$167,268	$0	$0	$0

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, 2006 and 2005, STIF had a weighted average maturity of 39 days and 32 days, respectively. The U.S. Treasury Securities are U.S. Treasury Bills that have 90-day maturities. 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, 2006 and 2005, the weighted average maturity of these funds was three days and eight days, respectively.

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

Interest repayment obligations on all outstanding Authority debt is fixed rate with the exception of the State loans, which are variable rate. As discussed in Note 4B, the State sets the interest rate monthly (the STIF rate plus 25 basis points). On March 24, 2005, the Authority created an irrevocable escrow fund invested in STIF and deposited $19,394,506, 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, 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/ V1+F

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

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

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, 2006 and 2005, approximately 98.1% and 97.7%, respectively of the Authority's investments are in the STIF, which is rated in the highest rating category by Standard & Poor's and provides daily liquidity.

3. CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended June 30, 2005 and 2006:

	Balance at July 1, 2004 ($000)	Additions ($000)	Transfers ($000)	Sales and Disposals ($000)	Balance at June 30, 2005 ($000)	Additions ($000)	Transfers ($000)	Sales and Disposals ($000)	Balance at June 30, 2006 ($000)
Nondepreciable assets:									
Land	$ 27,774	$ -	$ -	$ -	$ 27,774	$ -	$ -	$ -	$ 27,774
Construction-in-progress	501	1,398	(1,828)	-	71	50	-	-	121
Total nondepreciable assets	$ 28,275	$ 1,398	$ (1,828)	$ -	$ 27,845	$ 50	$ -	$ -	$ 27,895
Depreciable assets:									
Plant	$ 186,779	$ 294	$ 1,073	$ (65)	$ 188,081	$ 1,277	$ -	$ (117)	$ 189,241
Equipment	204,829	648	753	(294)	205,936	3,074	-	(2,901)	206,109
Total at cost	391,608	942	1,826	(359)	394,017	4,351	-	(3,018)	395,350
Less accumulated depreciation for:									
Plant	(109,186)	(7,523)	-	8	(116,701)	(7,730)	-	65	(124,366)
Equipment	(111,761)	(9,263)	2	275	(120,747)	(9,115)	-	2,704	(127,158)
Total accumulated depreciation	(220,947)	(16,786)	2	283	(237,448)	(16,845)	-	2,769	(251,524)
Total depreciable assets, net	$ 170,661	$ (15,844)	$ 1,828	$ (76)	$ 156,569	$ (12,494)	$ -	$ (249)	$ 143,826

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 2006 and 2005, 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.

The following is a summary of changes in bonds payable for the years ended June 30, 2005 and 2006.

	Balance at July 1, 2004 ($000)	Increases ($000)	Decreases ($000)	Balance at June 30, 2005 ($000)	Increases ($000)	Decreases ($000)	Balance at June 30, 2006 ($000)	Amounts Due Within One Year ($000)
Bonds payable - principal	$ 205,409	$ -	$ (118,834)	$ 86,575	$ -	$ (2,875)	$ 83,700	$ 3,032
Unamortized amounts:								
Premiums	1,144	-	(518)	626	-	(109)	517	99
Deferred amount on refunding	(3,941)	-	1,733	(2,208)	-	419	(1,789)	(202)
Total bonds payable	$ 202,612	$ -	$ (117,619)	$ 84,993	$ -	$ (2,565)	$ 82,428	$ 2,929

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, 2006 and 2005 as follows:

Project	2006 ($000)	2005 ($000)
Deferred amount on refunding:		
Mid-Connecticut	$ 667	$ 869
Bridgeport	(15)	(27)
Wallingford	10	17
Southeast	1,127	1,349
Subtotal	1,789	2,208
Reduced by unamortized premium:		
Bridgeport	(11)	(20)
Southeast	(506)	(606)
Subtotal	(517)	(626)
Net Reduction	$ 1,272	$ 1,582

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, 2006 and 2005, which are backed by special capital reserve funds, are as follows:

Project	2006 $000	2005 $000
Mid-Connecticut	$ 69,415	$ 69,415
Southeast	6,725	7,227
Total	$ 76,140	$ 76,642

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

Year ending June 30	Mid-Connecticut Principal ($000)	Mid-Connecticut Interest ($000)	Bridgeport Principal ($000)	Bridgeport Interest ($000)	Wallingford Principal ($000)	Wallingford Interest ($000)	Southeast Principal ($000)	Southeast Interest ($000)	Total Principal ($000)	Total Interest ($000)
2007	$ -	$ 3,785	$ 1,845	$ 277	$ 658	$ 69	$ 529	$ 345	$ 3,032	$ 4,476
2008	-	3,785	1,955	185	684	42	556	315	3,195	4,327
2009	-	3,785	1,705	86	713	14	586	283	3,004	4,168
2010	5,810	3,629	-	-	-	-	618	250	6,428	3,879
2011	20,205	2,930	-	-	-	-	650	215	20,855	3,145
2012-2017	43,400	2,415	-	-	-	-	3,786	508	47,186	2,923
	$ 69,415	$ 20,329	$ 5,505	$ 548	$ 2,055	$ 125	$ 6,725	$ 1,916	$ 83,700	$ 22,918
Interest Rates	5.375-5.50%		4.88-5.5%		4%		5.125-5.5%			

Early Retirement of Debt

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

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

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

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

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, 2006, the Authority has drawn down $21.5 million in loan advances from the State. All loans received from the State must be fully repaid, with interest, by 2012. The interest rate, as determined by the Office of the State Treasurer, is adjusted monthly based on the

State's base rate (STIF) plus twenty-five basis points and may not exceed six percent. The interest rate for June 2006 was 5.49%.

The following is a summary of changes in the State loans payable for the years ended June 30, 2005 and 2006.

	Balance at July 1, 2004 ($000)	Increases ($000)	Decreases ($000)	Balance at June 30, 2005 ($000)	Increases ($000)	Decreases ($000)	Balance at June 30, 2006 ($000)	Amounts Due Within One Year ($000)
State loans payable - principal	$ 12,090	$ 8,659	$ (2,191)	$ 18,558	$ -	$ (2,619)	$ 15,939	$ 2,619

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

Year Ending June 30	Principal ($000)	Interest ($000)
2007	$ 2,619	$ 821
2008	2,619	676
2009	2,619	529
2010	2,619	383
2011	2,619	237
2012 – 2013	2,844	95
Total	$ 15,939	$ 2,741

Interest rate is assumed @ 5.49%

On March 24, 2005, the Authority created an irrevocable escrow fund invested in STIF and deposited $19,394,506, 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 2005 and 2006 for the landfills, are presented in the following table:

Project/Landfill	Liability at July 1, 2004 ($000)	Expense ($000)	Paid ($000)	Liability at June 30, 2005 ($000)	Expense ($000)	Paid ($000)	Liability at June 30, 2006 ($000)	Amounts Due Within One Year ($000)
Mid-Connecticut:								
Hartford	$ 6,525	$ 281	$ -	$ 6,806	$ 82	$ -	$ 6,888	$ -
Ellington	3,318	104	(283)	3,139	96	(198)	3,037	194
Bridgeport:								
Shelton	10,985	(180)	(409)	10,396	1,498	(340)	11,554	1,051
Waterbury	1,017	-	-	1,017	-	-	1,017	-
Wallingford:	5,304	(25)	(160)	5,119	(47)	(129)	4,943	175
Total	$27,149	$180	($852)	$26,477	$1,629	($667)	$27,439	$1,420

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, 2006 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	$ 706	77%	98%	2	1
Bridgeport-Waterbury	125	—	89%	—	3
Total	$ 831				

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 $445,000 and $429,000 at June 30, 2006 and 2005, respectively. The Bridgeport-Waterbury Landfill account is valued at $158,000 and $152,000 at June 30, 2006 and 2005, respectively. The Wallingford Landfill account is valued at $139,000 and $134,000 at June 30, 2006 and 2005, respectively. These trust accounts are reflected as restricted assets in the accompanying balance sheets (see Note 1L).

At June 30, 2006, 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 2006.

In addition to the above trust accounts and letter of credit, the Authority satisfies certain financial assurance requirements at June 30, 2006 and 2005 by meeting specified criteria pursuant to Section 258.74 of the federal Environmental Protection Agency Subtitle D regulations.

6. MAJOR CUSTOMERS

Energy generation revenues from CL&P totaled 10% and 11% of the Authority's operating revenues for the fiscal years ended June 30, 2006 and 2005, respectively.

Service charge revenues from Waste Management of Connecticut, Inc. totaled 10% and 11 % of the Authority's operating revenues for the fiscal years ended June 30, 2006 and 2005, 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, 2006 and 2005 amounted to $392,000 and $337,000, respectively. Employees contributed $328,000 to the plan in fiscal year 2006 and $298,000 in fiscal year 2005.

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 2006, the Authority increased its overall property insurance limit from $315 million to $327 million to reflect an increase in overall property values. This provides 100% of the replacement cost value for the Mid-Connecticut Power Block Facility and Energy Generating Facility, plus business interruption and extra expense values for the Mid-Connecticut project. This is the Authority's highest valued single facility. The $327 million applies on a blanket basis for property damage to all locations.

The Authority is a member of the Connecticut Interlocal Risk Management Agency's ("CIRMA") Workers' Compensation Pool, a risk sharing pool, which was begun on July 1, 1980. The Workers' Compensation Pool provides statutory benefits pursuant to the provisions of the Connecticut Workers' Compensation Act. The coverage is a guaranteed cost program. The premium for the current policy for the period from October 1, 2005 through October 1, 2006 was $51,000. The premium for the previous policy for the period from July 1, 2004 through October 1, 2005 was $73,000.

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	2006 ($000)	2005 ($000)
Minimum rentals	$ 638	$ 638
Contingent rentals	145	120
Total	$ 783	$ 758

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, 2006 and 2005, the PILOT payments, which are included in the solid waste operations in the accompanying statements of revenues, expenses and change in net assets, totaled $7,983,000 and $7,761,000, respectively. Future minimum rental commitments under non-cancelable operating leases and future PILOT payments as of June 30, 2006 are as follows:

Fiscal Year	Lease Amount ($000)	PILOT Amount ($000)
2007	$ 628	$ 8,212
2008	644	8,449
2009	644	7,410
2010	639	6,325
2011	112	4,996
2012-2016	129	8,769
Thereafter	-	1,015
Total	$ 2,796	$ 45,176

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, 2006 and 2005 was as follows:

Project	2006 ($000)	2005 ($000)
Mid-Connecticut	$ 48,830	$ 44,154
Bridgeport	42,091	39,682
Wallingford	15,207	14,072
Southeast	8,020	8,690
Total	$ 114,148	$ 106,598

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, 2006 (excluding portions allocable to Authority purposes) are as follows:

Project	Amount ($000)
Bridgeport - 1999 Series A	$ 48,955
Wallingford - 1998 Series A	11,365
Southeast -	
1992 Series A (Corp. Credit)	30,000
1998 Series A (Project)	53,705
2001 Series A (Covanta Southeastern Connecticut Company – I)	6,750
2001 Series A (Covanta Southeastern Connecticut Company – II)	6,750
	97,205
Total	$ 157,525

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

11. SEGMENT INFORMATION

The Authority has four 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, 2006 and 2005, respectively.

	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 (loss)	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

	Mid-Connecticut ($000)	Bridgeport ($000)	Wallingford ($000)	Southeast ($000)
Condensed Balance Sheets				
Assets:				
Current unrestricted assets	$ 43,811	$ 16,102	$ 24,543	$ 7,562
Current restricted assets	17,079	2,317	1,894	2,469
Total current assets	60,890	18,419	26,437	10,031
Non-current assets:				
Restricted cash and cash equivalents	64,301	1,373	14,723	1,055
Capital assets, net	161,572	19,968	1,979	-
Other assets, net	998	122	1,171	4,930
Total non-current assets	226,871	21,463	17,873	5,985
Total assets	$ 287,761	$ 39,882	$ 44,310	$ 16,016
Liabilities:				
Current liabilities	$ 16,762	$ 9,353	$ 3,687	$ 3,174
Long-term liabilities	94,223	15,824	6,963	7,685
Total liabilities	110,985	25,177	10,650	10,859
Net Assets:				
Invested in capital assets, net of related debt	86,710	13,761	-	-
Restricted	44,704	1,980	14,118	260
Unrestricted	45,362	(1,036)	19,542	4,897
Total net assets	176,776	14,705	33,660	5,157
Total liabilities and net assets	$ 287,761	$ 39,882	$ 44,310	$ 16,016
Condensed Statements of Revenues, Expenses, and Changes in Net Assets				
Operating revenues	$ 86,571	$ 50,027	$ 21,973	$ 11,809
Operating expenses	66,194	45,599	16,719	10,359
Depreciation and amortization expense	16,080	858	309	448
Operating income	4,297	3,570	4,945	1,002
Non-operating revenues (expenses):				
Enron claim settlement	82,760	-	-	-
Investment income	3,063	286	796	308
Other income (expenses)	(89)	(1,870)	(184)	500
Interest expense	(8,819)	(378)	(160)	(665)
Net non-operating revenues (expense)	76,915	(1,962)	452	143
Income before special items	81,212	1,608	5,397	1,145
Special items:				
Gain on sale of Enron claim	28,502	-	-	-
Early retirement/defeasance of debt	(6,081)	-	(47)	-
Increase in net assets	103,633	1,608	5,350	1,145
Total net assets, July 1, 2004	73,143	13,097	28,310	4,012
Total net assets, June 30, 2005	$ 176,776	$ 14,705	$ 33,660	$ 5,157
Condensed Statement of Cash Flows				
Net cash provided by (used in):				
Operating activities	$ 20,404	$ 4,061	$ 4,235	$ 1,352
Investing activities	114,232	283	788	231
Capital and related financing activities	(122,259)	(2,605)	(2,185)	(3,290)
Non-capital financing activities	(32)	(17)	(7)	(9)
Net increase (decrease)	12,345	1,722	2,831	(1,716)
Cash and cash equivalents, July 1, 2004	97,403	12,970	34,800	7,445
Cash and cash equivalents, June 30, 2005	$ 109,748	$ 14,692	$ 37,631	$ 5,729

12. SIGNIFICANT EVENTS

In connection with the Enron bankruptcy, the Authority filed proofs of claim against Enron Power Marketing, Inc. and Enron Corporation, seeking to recover losses related to the Mid-Connecticut Project. On August 20, 2004, the Authority sold its court approved Enron bankruptcy claims to a major financial institution through a competitive bid auction. This institution agreed to pay the Authority approximately $111.2 million which resulted in a gain on sale of the Enron claims of $28.5 million. On February 1, 2005, $111.7 million in funds (representing the estimated value of the Enron claims of $82.8 million and $28.5 million gain from the sale of the Enron claims plus $424,926 of interest income) was released to the Authority. Following Board authorization, on March 11, 2005, the Authority fully defeased $2.1 million of its outstanding Mid-Connecticut Project 1997 Series A Bonds and $13.2 million of its 2001 Series A Bonds and partially defeased $81.5 million of its outstanding 1996 Series A Bonds. On March 24, 2005, using the remaining Enron claims settlement funds, the Authority also established an irrevocable escrow fund for the future repayment of the outstanding State loan borrowings.

The Authority recently completed two arbitration hearings with the Metropolitan District Commission (the "MDC") on claims asserted by both parties. The first arbitration hearing was held in the fall of 2004 regarding the Authority's right to hire replacement workers at the Mid-Connecticut project transfer stations and for transportation services. The arbitrators ruled that the Authority has the right to replace the MDC workers. The MDC did not seek, 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 as of June 30, 2005, 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 has an appeal pending.

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

13. SUBSEQUENT EVENTS

On July 27, 2006, following Board authorization and using funds available from the Mid-Connecticut project, including the Debt Service Stabilization Fund established for the payment of future debt service, the Authority further partially defeased $54.1 million of its remaining Mid-Connecticut Project 1996 Series A Bonds, leaving a principal balance of $15.2 million outstanding.

14. CONTINGENCIES

Mid-Connecticut Project:

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. On March 21, 2006, the court granted the plaintiffs' motion for Class Certification. On August 28, 2006, the court denied defendant's motions to consolidate the case with related matters and to implead two of the defendant's former law firms. On September 11, 2006, the court denied defendant's motion for summary judgment. The matter is currently scheduled for trial beginning October 25, 2006. The matter is too preliminary to estimate any potential exposure. The Authority has submitted the lawsuit to its Public Officials insurance company.

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, as well as a declaration that AISLIC is not obligated to defend or indemnify the Authority in the Ellington Landfill matter (see below). The Authority plans to defend against this action with regard to the Hartford Landfill matter, and, if necessary, with regard to the Ellington Landfill matter. 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 failed transaction with Enron and its subsidiaries in federal and state courts from its and their former law firms and financial institutions. Settlement discussions have been initiated with several defendants, and mediation sessions and trial dates with the Authority's former law firms have been scheduled. Management is uncertain of the amounts that may be realized from these claims.

On February 6, 2006, a Trust and its trustees filed suit against the Authority, claming negligence, trespass, strict tort liability, and violation of Connecticut's environmental laws and regulations, based upon alleged migration of various pollutants from the Ellington landfill onto Trust property, and seeking injunctive relief and compensatory damages. By letter of the same date, the Authority received notice of the Trust's intention to commence an action against the Authority for violation of the federal Clean Water Act and the Resource Conservation and Recovery Act. The Authority believes that the parties have reached agreement in principle, and is awaiting draft documentation from the Trust. The Authority's Board of Directors has authorized the acquisition of the disputed property for an amount not to exceed $2,450,000.

A claim has been made or may be asserted by several towns 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. If such claims are asserted, 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:

The Authority has disputed matters with several parties related to its recycling programs, including a lawsuit against the Town of Greenwich for the Town's failure to deliver all of its collected fiber recyclables to the Authority's recycling facility. Trial is scheduled for February 2007. Management is uncertain of the amounts that may be realized from these claims.

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. As of June 30, 2006, the Authority has 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 four viable parties of the Connecticut Group.

Other issues and Unasserted Claims and Assessments:

The Authority and the City of Hartford dispute the responsibility for payment of certain closure and postclosure costs associated with the Hartford landfill. Under its permits with the CTDEP, the Authority is obligated to the CTDEP to perform closure and postclosure of the landfill. The Authority believes that its closure obligations under its lease with the City are limited to the obligation to grade, seed and cover the landfill consistent with existing CTDEP standard and regulations, and that any additional closure costs and all postclosure maintenance and monitoring costs are the obligation of the City. The Authority has recorded an estimated liability for what it believes is its share of the closure and postclosure costs (see Note 5).

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.

COMBINING SCHEDULE OF BALANCE SHEETS
AS OF JUNE 30, 2006
(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	$ 1,364	$ 55,042	$ 12,549	$ 26,663	$ 3,026	$ -	$ 98,644
Accounts receivable, net of allowance	95	10,796	5,192	2,250	3,815	-	22,148
Inventory	-	3,419	-	-	-	-	3,419
Prepaid expenses	57	797	197	310	-	-	1,361
Due from other funds	-	927	-	-	-	(927)	-
Total Unrestricted Assets	1,516	70,981	17,938	29,223	6,841	(927)	125,572
Restricted Assets:							
Cash and cash equivalents	21	12,529	2,119	1,527	4,008	-	20,204
Accrued interest receivable	-	211	8	156	240	-	615
Total Restricted Assets	21	12,740	2,127	1,683	4,248	-	20,819
Total Current Assets	1,537	83,721	20,065	30,906	11,089	(927)	146,391
NON-CURRENT ASSETS							
Restricted cash and cash equivalents	-	62,290	1,429	15,342	1,069	-	80,130
Capital Assets:							
Depreciable:							
Plant	864	163,144	25,233	-	-	-	189,241
Equipment	1,020	202,223	2,816	50	-	-	206,109
	1,884	365,367	28,049	50	-	-	395,350
Less: Accumulated depreciation	(957)	(226,582)	(23,979)	(6)	-	-	(251,524)
Total Depreciable, net	927	138,785	4,070	44	-	-	143,826
Nondepreciable							
Land	-	10,595	15,200	1,979	-	-	27,774
Construction in progress	-	21	32	68	-	-	121
Total Nondepreciable	-	10,616	15,232	2,047	-	-	27,895
Development and bond issuance costs, net	-	765	92	879	4,482	-	6,218
Total Non-Current Assets	927	212,456	20,823	18,312	5,551	-	258,069
TOTAL ASSETS	$ 2,464	$ 296,177	$ 40,888	$ 49,218	$ 16,640	$ (927)	$ 404,460

COMBINING SCHEDULE OF BALANCE SHEETS
AS OF JUNE 30, 2006
(Dollars in Thousands)

EXHIBIT A
Page 2 of 2

LIABILITIES AND NET ASSETS	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project	Eliminations	Total
CURRENT LIABILITIES							
Current portion of:							
Bonds payable, net	$ -	$ -	$ 1,860	$ 653	$ 416	$ -	$ 2,929
State loans payable	-	2,619	-	-	-	-	2,619
Closure and postclosure care of landfills	-	194	1,051	175	-	-	1,420
Accounts payable and accrued expenses	845	12,979	5,071	2,997	2,723	-	24,615
Due to other funds	927	-	-	-	-	(927)	-
Other current liabilities	-	-	-	-	122	-	122
Total Current Liabilities	1,772	15,792	7,982	3,825	3,261	(927)	31,705
LONG-TERM LIABILITIES							
Bonds payable, net	-	68,748	3,671	1,392	5,688	-	79,499
State loans payable	-	13,320	-	-	-	-	13,320
Closure and postclosure care of landfills	-	9,731	11,520	4,768	-	-	26,019
Other liabilities	-	-	-	-	1,483	-	1,483
Total Long-Term Liabilities	-	91,799	15,191	6,160	7,171	-	120,321
TOTAL LIABILITIES	1,772	107,591	23,173	9,985	10,432	(927)	152,026
NET ASSETS							
Invested in capital assets, net of related debt	-	75,294	14,594	-	-	-	89,888
Restricted:							
Energy generating facility	-	20,962	-	-	-	-	20,962
Debt service reserve funds	-	18,467	1,020	-	78	-	19,565
Tip fee stabilization	-	-	-	14,481	-	-	14,481
Operating and maintenance	-	1,575	-	-	-	-	1,575
Equipment replacement	-	1,575	-	-	-	-	1,575
Debt service funds	-	205	891	-	-	-	1,096
Select Energy escrow	-	1,000	-	-	-	-	1,000
Shelton landfill future use	-	-	792	-	-	-	792
DEP trust - landfills	-	445	158	139	-	-	742
Revenue funds	-	-	-	-	662	-	662
Regional recycling center equipment	-	429	-	-	-	-	429
Recycling education fund	-	417	-	-	-	-	417
Rebate funds	-	-	4	114	159	-	277
Montville landfill postclosure	-	-	-	-	205	-	205
State loans	-	59	-	-	-	-	59
Other restricted net assets	21	49	-	-	-	-	70
Total Restricted	21	45,183	2,865	14,734	1,104	-	63,907
Unrestricted	671	68,109	256	24,499	5,104	-	98,639
Total Net Assets	692	188,586	17,715	39,233	6,208	-	252,434
TOTAL LIABILITIES AND NET ASSETS	$ 2,464	$ 296,177	$ 40,888	$ 49,218	$ 16,640	$ (927)	$ 404,460

EXHIBIT B

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

	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project	Eliminations	Total
Operating Revenues							
Service charges:							
Members	$ -	$ 42,691	$ 31,280	$ 8,907	$ 10,635	$ -	$ 93,513
Others	-	18,099	14,680	24	856	(473)	33,186
Energy generation	-	24,849	-	13,096	-	-	37,945
Ash disposal reimbursement	-	-	4,229	-	-	-	4,229
Other operating revenues	-	7,467	3,638	115	-	-	11,220
Total operating revenues	-	93,106	53,827	22,142	11,491	(473)	180,093
Operating Expenses							
Solid waste operations	10	60,164	46,595	17,249	9,481	(473)	133,026
Depreciation and amortization	182	16,072	849	299	448	-	17,850
Maintenance and utilities	-	1,997	297	19	-	-	2,313
Closure and postclosure care of landfills	-	178	1,498	(47)	-	-	1,629
Project administration	-	8,769	1,935	641	136	-	11,481
Total operating expenses	192	87,180	51,174	18,161	10,065	(473)	166,299
Operating Income (loss)	(192)	5,926	2,653	3,981	1,426	-	13,794
Non-Operating Revenues and (Expenses)							
Investment income	44	5,214	591	1,698	117	-	7,664
Other income (expenses), net	370	5,457	65	(7)	-	-	5,885
Interest expense	-	(4,787)	(299)	(99)	(492)	-	(5,677)
Net Non-Operating Revenues and (Expenses)	414	5,884	357	1,592	(375)	-	7,872
Increase in Net Assets	222	11,810	3,010	5,573	1,051	-	21,666
Total Net Assets, beginning of year	470	176,776	14,705	33,660	5,157	-	230,768
Total Net Assets, end of year	$ 692	$ 188,586	$ 17,715	$ 39,233	$ 6,208	$ -	$ 252,434

COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006
(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	$ 327	$ 97,381	$ 53,714	$ 23,092	$ 12,901	$ (473)	**$ 186,942**
Payments received from other funds	-	200	-	-	-	(200)	**-**
Payments to suppliers for goods and services	(10)	(68,363)	(49,705)	(17,470)	(9,586)	473	**(144,661)**
Payments to employees for services	-	(3,255)	(564)	(331)	(76)	-	**(4,226)**
Payments to other funds	(200)	-	-	-	-	200	**-**
Net Cash Provided by Operating Activities	117	25,963	3,445	5,291	3,239	-	**38,055**
Cash Flows From Investing Activities							
Interest on investments	43	5,142	588	1,593	9	-	**7,375**
Net Cash Provided by Investing Activities	43	5,142	588	1,593	9	-	**7,375**
Cash Flows From Capital and Related Financing Activities							
Proceeds from sales of equipment	-	312	-	-	-	-	**312**
Payments for landfill closure and postclosure care liabilities	-	(198)	(340)	(129)	-	-	**(667)**
Acquisition and construction of capital assets	-	(3,905)	(165)	(118)	-	-	**(4,188)**
Interest paid on long-term debt	-	(4,567)	(364)	(96)	(372)	-	**(5,399)**
Principal paid on long-term debt	-	(2,619)	(1,740)	(633)	(502)	-	**(5,494)**
Net Cash Used in Capital and Related Financing Activities	-	(10,977)	(2,609)	(976)	(874)	-	**(15,436)**
Cash Flows From Non-Capital Financing Activities							
Other interest and fees	-	(15)	(19)	(7)	-	-	**(41)**
Net Cash Used in Non-Capital Financing Activities	-	(15)	(19)	(7)	-	-	**(41)**

COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006
(Dollars in Thousands)

EXHIBIT C
Page 2 of 2

	General Fund	Mid-Connecticut Project	Bridgeport Project	Wallingford Project	Southeast Project	Eliminations	Total
Net increase in cash and cash equivalents	$ 160	$ 20,113	$ 1,405	$ 5,901	$ 2,374	$ -	$ 29,953
Cash and cash equivalents, beginning of year	1,225	109,748	14,692	37,631	5,729	-	**169,025**
Cash and cash equivalents, end of year	$ 1,385	$ 129,861	$ 16,097	$ 43,532	$ 8,103	$ -	**$ 198,978**
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:							
Operating income (loss)	$ (192)	$ 5,926	$ 2,653	$ 3,981	$ 1,426	$ -	**$ 13,794**
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:							
Depreciation of capital assets	182	15,839	818	6	-	-	**16,845**
Amortization of development and bond issuance costs	-	233	31	293	448	-	**1,005**
Provision for closure and postclosure care of landfills	-	178	1,498	(47)	-	-	**1,629**
Other income (expenses)	157	5,395	95	-	-	-	**5,647**
Changes in assets and liabilities:							
(Increase) decrease in:							
Accounts receivable, net	42	(1,170)	(233)	938	1,410	-	**987**
Inventory	-	377	-	-	-	-	**377**
Prepaid expenses	2	(41)	(60)	(20)	-	-	**(119)**
Due from other funds	-	200	-	-	-	(200)	**-**
(Decrease) increase in:							**-**
Accounts payable, accrued expenses and other liabilities	126	(974)	(1,357)	140	(45)	-	**(2,110)**
Due to other funds	(200)	-	-	-	-	200	**-**
Net Cash Provided by Operating Activities	$ 117	$ 25,963	$ 3,445	$ 5,291	$ 3,239	$ -	**$ 38,055**

COMBINING SCHEDULE OF NET ASSETS
AS OF JUNE 30, 2006
(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	$ -	$ 75,294	$ 14,594	$ -	$ -	$ 89,888
Restricted net assets:						
Current restricted cash and cash equivalents:						
Revenue funds	-	7,101	3	974	3,339	11,417
Debt service funds	-	678	1,308	471	342	2,799
State loans	-	2,619	-	-	-	2,619
Select Energy escrow	-	1,000	-	-	-	1,000
Shelton landfill future use	-	-	792	-	-	792
Regional recycling center equipment	-	458	-	-	-	458
Recycling education fund	-	417	-	-	-	417
Montville landfill postclosure	-	-	-	-	327	327
Customer guarantee of payment	-	212	16	82	-	310
Town of Ellington trust - pooled funds	-	44	-	-	-	44
Mercury public awareness	21	-	-	-	-	21
Total current restricted cash and cash equivalents	21	12,529	2,119	1,527	4,008	20,204
Non-current restricted cash and cash equivalents:						
Debt service reserve funds	-	24,354	1,267	608	910	27,139
Energy generating facility	-	20,962	-	-	-	20,962
Tip fee stabilization	-	-	-	14,481	-	14,481
State loans	-	13,379	-	-	-	13,379
Equipment replacement	-	1,575	-	-	-	1,575
Operating and maintenance	-	1,575	-	-	-	1,575
DEP trust - landfills	-	445	158	139	-	742
Rebate funds	-	-	4	114	159	277
Total non-current restricted cash and cash equivalents	-	62,290	1,429	15,342	1,069	80,130
Less liabilities to be paid with current restricted assets:						
Bonds payable, net	-	473	417	471	342	1,703
State loans payable	-	2,619	-	-	-	2,619
Other liabilities	-	7,337	19	1,056	2,799	11,211
Total liabilities to be paid with current restricted assets	-	10,429	436	1,527	3,141	15,533
Less liabilities to be paid with non-current restricted assets:						
Bonds payable, net	-	5,887	247	608	832	7,574
State loans payable	-	13,320	-	-	-	13,320
Total liabilities to be paid with non-current restricted assets	-	19,207	247	608	832	20,894
Total restricted net assets	21	45,183	2,865	14,734	1,104	63,907

COMBINING SCHEDULE OF NET ASSETS
AS OF JUNE 30, 2006
(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	$ -	$ 3,759	$ 5,386	$ 6,740	$ -	$ 15,885
Debt service stabilization	-	16,476	-	-	-	16,476
Closure care of landfills	-	9,208	731	-	-	9,939
Future loss contingencies	-	4,995	-	1,047	252	6,294
Facility modifications	-	3,966	-	-	-	3,966
Rolling stock	-	3,889	-	-	-	3,889
Future use	-	-	-	2,805	-	2,805
Recycling	-	1,866	27	-	-	1,893
Landfill development	-	1,252	-	-	-	1,252
South Meadows site remediation	-	242	-	-	-	242
Benefit fund	230	-	-	-	-	230
Undesignated	441	22,456	(5,888)	13,907	4,852	35,768
Total unrestricted net assets	671	68,109	256	24,499	5,104	98,639
Total Net Assets	$ 692	$ 188,586	$ 17,715	$ 39,233	$ 6,208	$ 252,434