

ULSTER COUNTY RESOURCE
RECOVERY AGENCY

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Reports thereon)

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 7
Financial Statements:	
Statements of Nets Assets	8
Statements of Revenue, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11 - 24
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Including Compliance with Investment Guidelines, Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	25 - 26

* * * * *

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DR.
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(518) 935-1069

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Ulster County Resource Recovery Agency:

We have audited the accompanying basic financial statements of Ulster County Resource Recovery Agency (the Agency), a component unit of the County of Ulster, New York, as of and for the years ended December 31, 2010 and 2009, as listed in the accompanying table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, including compliance with investment guidelines for public authorities and the Agency's investment guidelines. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 7 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. This information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Toski, Schaefer & Co. P.C.

Williamsville, New York
March 16, 2011

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis

December 31, 2010 and 2009

Introduction

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

The Ulster County Resource Recovery Agency is proud to present its financial statements for the fiscal year 2010. There are three financial statements presented: statements of net assets, statements of revenue, expenses, and changes in net assets, statements of cash flows, and notes to financial statements.

The following is a discussion and analysis of the Ulster County Resource Recovery Agency's financial performance providing a narrative overview of the activities for the year ended December 31, 2010. Readers should consider management's discussion and analysis in conjunction with the financial statements, which follow this section.

Financial Highlights

The Agency's net assets (deficit) balance decreased by \$3.6 million, from \$(11.6) million at December 31, 2009 to \$(8.0) million at December 31, 2010.

Total revenue in 2010 amounted to \$16 million, a \$1.6 million increase from 2009. During 2009, the Agency entered into an agreement with one of its commercial haulers that substantially increased volume and related revenues. This agreement increased monthly volume by approximately 3,000 tons per month (over \$200,000 per month in increased tip fee revenue). This increase in volume and an overall improvement in recycling markets, were responsible for the increase in 2010.

The Agency is reimbursed by the New York State Department of Environmental Conservation's Environmental Protection Fund for two separate programs: (1) Municipal Waste Reduction and Recycling Program (MWRR) and (2) Household Hazardous Waste State Assistance Program. Grant revenue related to these two programs increase from 2009 by \$118,000. A majority of this increase was for funds received under the MWRR program for expenditures related to 2003-2009 program years.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis, Continued

Total expenses of \$13.7 million in 2010 increased by \$1.1 million when compared to 2009. This increase is a direct effect of transportation and disposal costs related to increased volumes. The Agency continues to focus on streamlining operations in order to achieve improved operating efficiencies.

Overview of the Financial Statements

Statements of Net Assets

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

Condensed Statement of Net Assets

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Assets, other than capital assets	\$ 9,585,998	9,821,545
Capital assets	<u>10,163,301</u>	<u>10,717,531</u>
Total assets	<u>\$ 19,749,299</u>	<u>20,539,076</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities	3,989,390	4,897,554
Long-term liabilities	<u>23,751,410</u>	<u>27,233,777</u>
Total liabilities	<u>27,740,800</u>	<u>32,131,331</u>
Net Assets:		
Investments in capital assets, net of capital lease	10,163,301	10,703,167
Unrestricted	3,006,388	2,665,397
Related to outstanding debt	(23,278,745)	(25,638,745)
Landfill postclosure care costs	(2,803,410)	(4,174,756)
Restricted	<u>4,920,965</u>	<u>4,852,682</u>
Total net assets (deficit)	<u>(7,991,501)</u>	<u>(11,592,255)</u>
Total liabilities and net assets	<u>\$ 19,749,299</u>	<u>20,539,076</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis, Continued

Statements of Revenue, Expenses, and Changes in Net Assets

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

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

	<u>2010</u>	<u>2009</u>
Revenue:		
Program revenue:		
Grant revenue	\$ 167,784	49,591
Sales of recyclable materials	1,463,344	1,100,205
Solid waste service fees	12,914,289	11,580,778
County net service fees	1,382,894	1,398,254
Other revenue	27,040	38,415
General revenue:		
Investment income	116,630	116,723
Gain on disposal of assets	<u>2,132</u>	<u>79,199</u>
Total revenue	<u>16,074,113</u>	<u>14,363,165</u>
Expenses:		
Facilities and operations - cost of sales and service	9,183,230	8,217,732
General and administrative:		
Salaries and wages	1,642,098	1,532,417
Benefits	834,149	824,782
Administration	611,701	540,648
Depreciation	606,690	630,193
Amortization	62,708	63,742
Interest on long-term debt	<u>748,384</u>	<u>830,655</u>
Total expenses	<u>13,688,960</u>	<u>12,640,169</u>
Increase in net assets	2,385,153	1,722,996
(Increase) reduction in estimated liability for landfill postclosure care costs	1,215,601	(918,700)
Net assets (deficit) at beginning of year	<u>(11,592,255)</u>	<u>(12,396,551)</u>
Net assets (deficit) at end of year	\$ <u>(7,991,501)</u>	<u>(11,592,255)</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis, Continued

Statements of Cash Flows

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

Condensed Statements of Cash Flows

	<u>2010</u>	<u>2009</u>
Net cash provided by operating activities	\$ 2,691,555	2,749,088
Net cash used in capital and related financing activities	(3,218,009)	(3,869,183)
Net cash provided by investing activities	<u>116,627</u>	<u>116,651</u>
Net decrease in cash and equivalents	(409,827)	(1,003,444)
Cash and equivalents at beginning of year	<u>4,554,209</u>	<u>5,557,653</u>
Cash and equivalents at end of year	<u>\$ 4,144,382</u>	<u>4,554,209</u>

Economic Outlook

The Agency's overall financial position improved greatly during 2010, but current changes to the industry are cause for concern. The Agency's use of contractual flow control has allowed volumes to remain high throughout 2010. This is essential to the Agency in order to keep the net service fee from the County at the current levels. Many of the Agency's contracts are due to expire at the end of 2012, which if not renewed, would have disastrous effects on Agency revenues. It is vital for the Agency to begin looking at renewing these contracts as part of an Agency-wide five year strategic management plan. If these contracts can't be renewed, flow control will have to be implemented and a new system for how the Agency should operate will need to be determined. This can be done in conjunction with the Agency's new Solid Waste Management Plan.

Improvements in recycling markets during 2010 produced higher and more consistent returns from sales of recyclables. However, the introduction and eventual growth of single stream recycling in Ulster County will leave the Agency with a Materials Recovery Facility (MRF) that is obsolete. At the time of this report, an engineering study is being completed to determine the best options for the Agency's MRF and ultimately its County-wide recycling program.

In the past six months, the New York State Department of Environmental Conservation has been conducting on-site monitoring of the Agency's facilities. This monitoring activity will continue into 2012 and possibly beyond. The Agency is responsible for the payment of these services. Monitoring of this type can lead to violations with regards to the Agency's transfer station permits, which in turn can have a financial impact on the Agency and its operations. Recent meetings with DEC staff have proven to be effective, and the results have been positive.

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

Overall Analysis

The Agency and its operations are largely driven by volume. The Agency's agreement with the area's largest commercial/residential hauler had a significant impact on volume in 2010. Agency tonnage increased by over 9% when compared to 2009, which represents an increase of over 1,000 tons per month. This increase resulted in an operating income that was over a half million dollars higher than the previous year. Thus, illustrating how important maintaining volume is to the Agency.

A significant decrease in leachate volumes at the Agency operated closed landfills resulted in a large reduction in long-term estimated liability post-closure care costs. This decrease is believed to be associated with less precipitation than in the previous year. The Agency contracted with an engineering firm in 2008 to substantiate this belief. If this study determined that the leachate was really groundwater runoff, the Agency would significantly lower costs and ultimately have a very large reduction in estimated post-closure care costs going forward.

Overall, the Agency was able to maintain a positive financial position throughout 2010, but needs to review all Agency operational options in order to continue this positive trend long-term.

Additional Information

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

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Statements of Net Assets
December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and equivalents	\$ 4,144,382	4,554,209
Investments	2,542,949	2,542,949
Receivables, net of allowance of \$73,000 in 2010 and \$74,000 in 2009	1,141,931	983,610
Accrued interest	38,689	38,686
Due from Ulster County	1,382,894	1,398,254
Prepaid expense	<u>323,737</u>	<u>286,685</u>
Total current assets	9,574,582	9,804,393
Discount at issue	11,416	17,152
Capital assets, net	<u>10,163,301</u>	<u>10,717,531</u>
Total assets	<u>\$ 19,749,299</u>	<u>20,539,076</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	820,004	970,981
Deferred revenue	374,777	783,593
Host community benefits payable	15,800	129,324
Other payables	69,447	58,619
Current installments of long-term debt	2,175,000	2,374,364
Current portion of landfill post-closure care costs	155,745	219,724
Compensated absences	<u>378,617</u>	<u>360,949</u>
Total current liabilities	3,989,390	4,897,554
Long-term debt, excluding current installments	21,103,745	23,278,745
Landfill post-closure care costs, excluding current portion	<u>2,647,665</u>	<u>3,955,032</u>
Total liabilities	<u>27,740,800</u>	<u>32,131,331</u>
Net assets (deficit):		
Investments in capital assets, net of capital lease	10,163,301	10,703,167
Restricted for:		
General operating costs	1,382,894	1,398,254
Landfill closure	105,120	105,109
Debt repayment	3,432,951	3,349,319
Unrestricted (deficit)	<u>(23,075,767)</u>	<u>(27,148,104)</u>
Total net assets (deficit)	<u>(7,991,501)</u>	<u>(11,592,255)</u>
Contingencies (note 9)		
Total liabilities and net assets	<u>\$ 19,749,299</u>	<u>20,539,076</u>

See notes to accompanying financial statements.

ULSTER COUNTY RESOURCE RECOVERY AGENCY
Statement of Revenue, Expenses and Changes in Net Assets
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenue:		
Charges for sales and services:		
Sales of recyclable materials	\$ 1,463,344	1,100,205
Solid waste service fees	12,914,289	11,580,778
County net service fees	1,382,894	1,398,254
Other revenue	<u>27,040</u>	<u>38,415</u>
Total operating revenue	<u>15,787,567</u>	<u>14,117,652</u>
Operating expenses:		
Costs of sales and services	9,183,230	8,217,732
Salaries and wages	1,642,098	1,532,417
Benefits	834,149	824,782
Administration	611,701	540,648
Depreciation	606,690	630,193
Amortization	<u>62,708</u>	<u>63,742</u>
Total operating expenses	<u>12,940,576</u>	<u>11,809,514</u>
Operating income	<u>2,846,991</u>	<u>2,308,138</u>
Nonoperating revenue (expenses):		
Investment income	116,630	116,723
Grant revenue	167,784	49,591
Interest expense	(748,384)	(830,655)
Gain on disposal of assets	<u>2,132</u>	<u>79,199</u>
Total nonoperating revenue (expenses)	<u>(461,838)</u>	<u>(585,142)</u>
Increase in net assets	2,385,153	1,722,996
Reduction (increase) in estimated liability for landfill post closure care costs	1,215,601	(918,700)
Net assets (deficit) at beginning of year	<u>(11,592,255)</u>	<u>(12,396,551)</u>
Net assets (deficit) at end of year	<u>\$ (7,991,501)</u>	<u>(11,592,255)</u>

See accompanying notes to financial statements.

ULSTER COUNTY RESOURCE RECOVERY AGENCY
 Statements of Cash Flows
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from services	\$ 15,235,790	13,767,584
Payments to suppliers	(10,085,676)	(8,706,239)
Payment to employees	<u>(2,458,559)</u>	<u>(2,312,257)</u>
Net cash provided by operating activities	<u>2,691,555</u>	<u>2,749,088</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(112,639)	(541,499)
Net proceeds from disposal of assets	5,339	88,825
Grant revenue	167,784	49,591
Landfill post-closure care costs	(155,745)	(219,724)
Principal paid on long-term debt	(2,374,364)	(2,415,721)
Interest paid on long-term debt	<u>(748,384)</u>	<u>(830,655)</u>
Net cash used in capital and financing activities	<u>(3,218,009)</u>	<u>(3,869,183)</u>
Cash flows from investing activities - investment income received	<u>116,627</u>	<u>116,651</u>
Net decrease in cash and equivalents	(409,827)	(1,003,444)
Cash and equivalents at beginning of year	<u>4,554,209</u>	<u>5,557,653</u>
Cash and equivalents at end of year	<u>\$ 4,144,382</u>	<u>4,554,209</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	2,846,991	2,308,138
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	606,690	630,193
Amortization expense	62,708	63,742
Changes in:		
Receivables	(158,321)	(236,534)
Due from Ulster County	15,360	(148,871)
Prepaid expenses	(37,052)	(245,396)
Accounts payable and other payables	(253,673)	285,037
Deferred revenue	(408,816)	47,837
Compensated absences	<u>17,668</u>	<u>44,942</u>
Net cash provided by operating activities	<u>\$ 2,691,555</u>	<u>2,749,088</u>

See accompanying notes to financial statements.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements

December 31, 2010 and 2009

(1) Organization

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

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

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

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

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

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

ULSTER COUNTY RESOURCE RECOVERY AGENCY
Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(a) Financial Reporting Entity, Continued

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

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

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

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

(b) Budgetary Policies

The budget policies are as follows:

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

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(b) Budgetary Policies, Continued

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

(c) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(d) Cash and Equivalents

For financial statement purposes, the Agency considers all highly liquid investments with maturities of three months or less to be cash equivalents. Due to debt service reserve requirements, varying amounts of cash equivalents may need to be restricted throughout the year. Restricted cash equivalents needed as of December 31, 2010 and 2009 amounted to \$0 and \$20,926, respectively.

(e) Receivables and Allowance for Doubtful Accounts

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

(f) Capital Assets

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

(g) Interfund Transfers

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

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(h) Fund Equity

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

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

(i) Advertising Costs

Advertising costs are expensed as incurred.

(j) Subsequent Events

The Agency has evaluated events after December 31, 2010, and through March 16, 2011, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(3) Capital Assets

Capital asset activity for the years ended December 31, 2010 and 2009 is as follows:

	2010			
	<u>Beginning</u> <u>balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>balances</u>
Land	\$ 683,172	-	-	683,172
Buildings	10,033,692	16,174	-	10,049,866
Machinery and equipment	3,257,668	59,135	(19,247)	3,297,556
Trailers	446,675	-	-	446,675
Computers	35,012	1,505	-	36,517
Software	29,127	-	-	29,127
Vehicles	1,390,437	28,687	(98,412)	1,320,712
Furniture and fixtures	68,715	-	-	68,715
Construction-in-process	32,083	7,138	-	39,221
Bond issuance costs	569,722	-	-	569,722
Total capital assets	<u>16,546,303</u>	<u>112,639</u>	<u>(117,659)</u>	<u>16,541,283</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(3) Capital Assets, Continued

Less accumulated depreciation and amortization

	2010			
	<u>Beginning balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balances</u>
Buildings	\$ 1,616,768	259,604	-	1,876,372
Machinery and equipment	2,219,611	243,024	(16,040)	2,446,595
Trailers	393,112	28,055	-	421,167
Computers	15,542	5,873	-	21,415
Software	27,510	1,079	-	28,589
Vehicles	1,165,151	67,249	(98,412)	1,133,988
Furniture and fixtures	57,145	1,806	-	58,951
Bond issuance costs	<u>333,933</u>	<u>56,972</u>	<u>-</u>	<u>390,905</u>
Total accumulated depreciation and amortization	<u>5,828,772</u>	<u>663,662</u>	<u>(114,452)</u>	<u>6,377,982</u>
Capital assets, net	<u>\$ 10,717,531</u>	<u>(551,023)</u>	<u>(3,207)</u>	<u>10,163,301</u>
	2009			
	<u>Beginning balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balances</u>
Land	\$ 595,000	88,172	-	683,172
Buildings	9,763,174	270,518	-	10,033,692
Machinery and equipment	3,364,854	183,875	(291,061)	3,257,668
Trailers	537,475	-	(90,800)	446,675
Computers	35,012	-	-	35,012
Software	29,127	-	-	29,127
Vehicles	1,832,142	-	(441,705)	1,390,437
Furniture and fixtures	68,715	-	-	68,715
Construction-in-process	33,149	14,387	(15,453)	32,083
Bond issuance costs	<u>569,722</u>	<u>-</u>	<u>-</u>	<u>569,722</u>
Total capital assets	<u>16,828,370</u>	<u>556,952</u>	<u>(839,019)</u>	<u>16,546,303</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(3) Capital Assets, Continued

Less accumulated depreciation and amortization

	2009			
	Beginning balances	Additions	Retirements	Ending balances
Buildings	\$ 1,373,362	243,406	-	1,616,768
Machinery and equipment	2,254,263	246,783	(281,435)	2,219,611
Trailers	450,343	33,569	(90,800)	393,112
Computers	9,820	5,722	-	15,542
Software	26,431	1,079	-	27,510
Vehicles	1,509,426	97,430	(441,705)	1,165,151
Furniture and fixtures	54,941	2,204	-	57,145
Bond issuance costs	276,961	56,972	-	333,933
Total accumulated depreciation and amortization	<u>5,955,547</u>	<u>687,165</u>	<u>(813,940)</u>	<u>5,828,772</u>
Capital assets, net	<u>\$ 10,872,823</u>	<u>(130,213)</u>	<u>(25,079)</u>	<u>10,717,531</u>

(4) Cash Equivalents and Investments

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

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

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

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

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(4) Cash Equivalents and Investments, Continued

At December 31, 2009, the Agency's cash equivalents and investment balances were as follows:

	Category			Reported amount/ fair value
	1	2	3	
Cash and equivalents	\$ 2,287,269	2,266,940	-	4,554,209
Investments	-	<u>2,542,949</u>	-	<u>2,542,949</u>
Total	<u>\$ 2,287,269</u>	<u>4,809,889</u>	-	<u>7,097,158</u>

(5) Retirement Plan

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

Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressed used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Employer contribution rates were 11.3% and 7.0% of salaries for the years ended December 31, 2010 and 2009, respectively. Contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows:

2010	\$ 275,908
2009	199,007
2008	206,002

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(6) Long-Term Debt

Long-term debt at December 31, 2010 and 2009 consists of the following:

(a) Long-Term Debt

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

(b) Changes

The changes in the Agency's indebtedness during the years ended December 31, 2010 and 2009 are summarized as follows:

	2010			
	Balances	Additions	Payments	Balances
	<u>January 1</u>			<u>December 31</u>
Term notes	\$ 1,020,000	-	(115,000)	905,000
Term bonds	4,154,990	-	(650,000)	3,504,990
Serial bonds	15,015,000	-	(1,595,000)	13,420,000
Capital appreciation bonds	5,448,755	-	-	5,448,755
Capital leases	14,364	-	(14,364)	-
Total	<u>\$ 25,653,109</u>	<u>-</u>	<u>(2,374,364)</u>	<u>23,278,745</u>
	2009			
	Balances	Additions	Payments	Balances
	<u>January 1</u>			<u>December 31</u>
Term notes	\$ 1,130,000	-	(110,000)	1,020,000
Term bonds	4,789,990	-	(635,000)	4,154,990
Serial bonds	16,595,000	-	(1,580,000)	15,015,000
Capital appreciation bonds	5,448,755	-	-	5,448,755
Capital leases	105,085	-	(90,721)	14,364
Total	<u>\$ 28,068,830</u>	<u>-</u>	<u>(2,415,721)</u>	<u>25,653,109</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(6) Long-Term Debt, Continued

(c) Maturity

The following is a summary of maturity of indebtedness as of December 31, 2010:

<u>Description of issue</u>	<u>Issue date</u>	<u>Final maturity</u>	<u>Interest rate</u>	<u>Outstanding at 12/31/10</u>
Term bonds	03/10/1999	03/01/2014	2.20%	\$ 1,734,990
Term bonds	12/30/1998	08/01/2016	2.23%	430,000
Term bonds	07/01/1999	03/01/2017	2.20%	1,340,000
Term note	05/01/2000	03/01/2017	2.82%	905,000
Serial bonds	12/18/2002	03/01/2018	3.75 - 5.25%	11,705,000
Serial bonds	07/21/2006	03/01/2021	4.50 - 5.00%	1,715,000
Capital appreciation bonds	12/18/2002	03/01/2025	4.96 - 5.29%	<u>5,448,755</u>
Total long-term debt				<u>\$ 23,278,745</u>

The maturities of these issues as of December 31, 2010 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,175,000	672,581	2,847,581
2012	2,250,000	599,903	2,849,903
2013	2,320,000	523,827	2,843,827
2014	2,404,990	443,747	2,848,737
2015	2,030,000	363,806	2,393,806
2016 - 2020	8,032,103	2,570,136	10,602,239
2021 - 2025	<u>4,066,652</u>	<u>7,332,623</u>	<u>11,399,275</u>
	<u>\$23,278,745</u>	<u>12,506,623</u>	<u>35,785,368</u>

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

(d) Advance Refunding of Debt

The Agency entered into agreements in prior years with M & T Bank (as escrow agent) for the advance refunding of bonds. The purpose of this advance refunding was to reduce aggregate debt service payments. M & T Bank is Trustee of the escrow funds paid to them by the Agency for the payment of the debt. The balances of the defeased bonds (2000 bond issue) not yet paid at December 31, 2010 amounted to \$4,240,000.

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

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(7) Unrestricted Deficit

The Agency's net unrestricted deficit as of December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
General unrestricted	\$ 2,854,596	2,513,609
Insurance reserve	151,792	151,788
Related to outstanding debt	(23,278,745)	(25,638,745)
Landfill post-closure care costs	<u>(2,803,410)</u>	<u>(4,174,756)</u>
	<u>\$ (23,075,767)</u>	<u>(27,148,104)</u>

(8) Compensated Absences

Employees of the Agency are entitled to reimbursement of unused sick and vacation time at the time of retirement or other termination of service. The Agency's policy is to accrue the cost of compensated absences as earned and vested by the Agency's employees. This amount is included as a payable in the accompanying statements of net assets in the amount of \$378,617 and \$360,949 as of December 31, 2010 and 2009, respectively.

(9) Contingencies

Contingencies at December 31, 2010 consist of the following:

(a) Risk Financing and Related Insurance

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

The balances in the insurance reserve at December 31, 2010 and 2009 amounted to \$151,792 and \$151,788, respectively. The reserved monies are maintained in a separate interest-bearing account. There were no claims paid out of this fund in 2010 or 2009.

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

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(9) Contingencies, Continued

(a) Risk Financing and Related Insurance, Continued

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

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

(b) Landfill Closure and Post-Closure Care Costs

New York State and Federal laws required the Agency to place a final cover on its landfill sites when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Agency is currently in the post-closure phase at each of the landfills. The post-closure period goes throughout the year 2028. In 2009, the annual post-closure monitoring and maintenance cost for all three landfills was \$219,724. In 2010, a study was performed to analyze the projected costs. Current projections prepared by the Agency, of annual post-closure monitoring and maintenance costs for all three landfills, are \$155,745 for each of the remaining 18 years as follows:

	<u>Ulster</u> <u>landfill</u>	<u>New Paltz</u> <u>landfill</u>	<u>Lloyd</u> <u>landfill</u>	<u>Total</u>
Environmental monitoring	\$ 7,700	5,650	6,635	19,985
Leachate disposal	55,438	58,108	1,663	115,209
Facility maintenance	<u>11,336</u>	<u>4,140</u>	<u>5,075</u>	<u>20,551</u>
Total annual cost	<u>\$ 74,474</u>	<u>67,898</u>	<u>13,373</u>	<u>155,745</u>

The liability for landfill post-closure care costs at December 31, 2010 consists of the following:

Total annual cost	\$ 155,745
Remaining years	<u>18</u>
Total liability	2,803,410
Less current portion	<u>(155,745)</u>
Landfill post-closure care costs, excluding current portion	\$ <u>2,647,665</u>

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(9) Contingencies, Continued

(c) Litigation

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

(10) Concentrations of Credit Risk

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

(11) Related Party Transactions

As part of the agreement between the County and the Agency, the County will provide the Agency each year with net service funds to assist with operating expenses incurred by the Agency. County net service fees amounted to \$1,382,894 and \$1,398,254 for the years ended December 31, 2010 and 2009, respectively. The amount due from Ulster County amounted to \$1,382,894 and \$1,398,254 at December 31, 2010 and 2009, respectively.

(12) Deferred Revenue

As of December 31, 2010 and 2009, the Agency had deferred revenue amounting to \$374,777 and \$783,593, respectively. This balance consisted of a deposit from a customer as part of an agreement to dispose of municipal solid waste, including construction and demolition debris, at the Agency's transfer stations. The Agency has agreed to accept a maximum of 300 tons of trailer transported waste, plus a minimum of 250 tons of non-trailer transported waste per week.

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

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

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(12) Deferred Revenue, Continued

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

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

(13) Grant Revenue

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

(a) Municipal Waste Reduction and Recycling Program

This program is funded by the New York State Department of Environmental Conservation's Environmental Protection Fund. In accordance with Ulster County's Mandatory Source Separation and Recycling Law, the Agency continues to develop its programs with regards to waste reduction and recycling education. Grant revenue received represents a 50% reimbursement of Agency disbursements with regards to operating this program. The Agency received \$147,531 for this program during the year ended December 31, 2010. No funds were received for this program during the year ended December 31, 2009.

ULSTER COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(13) Grant Revenue, Continued

(b) Household Hazardous Waste State Assistance Program

This program is funded by the New York State Department of Environmental Conservation's Environmental Protection Fund. The Agency administers household hazardous waste events several times per year. This collection provides a safe disposal alternative for electronics, hazardous pesticides, solvents and other household chemicals to the residents of Ulster County. Grant revenue received represents a 50% reimbursement of Agency disbursements with regards to operating these events. The Agency received \$20,253 and \$34,976 for this program during the year ended December 31, 2010 and 2009, respectively.

(c) Records Management Grant

This program is funded by the New York State Education Department's Local Government Records Management Improvement Fund. The Agency has received funding for two separate projects during the years ended December 31, 2010 and 2009.

The Agency's project was for the development of proper procedures and policies for inactive records, and to increase available storage space in our record rooms. This project was completed during 2009 and was for the 2008-2009 grant year. The Agency received \$7,841 during the year ended December 31, 2009.

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DR.
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(516) 935-1069

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING
COMPLIANCE WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
Ulster County Resource Recovery Agency:

We have audited the financial statements of the Ulster County Resource Recovery Agency (the Agency), a component unit of the County of Ulster, New York as of and for the year ended December 31, 2010, and have issued our report thereon dated March 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, others within the Agency and appropriate officials of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Schaefer & Co., P.C.

Williamsville, New York
March 16, 2011