

**RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

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INDEPENDENT AUDITORS' REPORT

To the Board Members
Rhode Island Resource Recovery Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Rhode Island Resource Recovery Corporation, (a component unit of the State of Rhode Island), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. These procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Resource Recovery Corporation as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in net OPEB liability – retiree healthcare plan on Pages 4-14 and 50, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of investments and deposits, statements of net position, changes in net position, schedules of debt service to maturity, long-term debt-bonds only, changes in long-term debt, travel and entertainment on Pages 51 - 58, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of investments and deposits, net position, changes in net position, schedules of debt service to maturity, long-term debt-bonds only, changes in long-term debt, travel and entertainment are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019 on our consideration of the Rhode Island Resource Recovery Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 effectiveness of Rhode Island Resource Recovery Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhode Island Resource Recovery Corporation's internal control over financial reporting and compliance.

Marcum LLP

Providence, Rhode Island
September 30, 2019

**RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2019 AND 2018

As management of the Rhode Island Resource Recovery Corporation (the “Corporation”), a component unit of the State of Rhode Island (the State), we offer readers of the Corporation’s financial statements this narrative overview and analysis of the financial activities of Rhode Island Resource Recovery Corporation for the years ended June 30, 2019 and 2018. Rhode Island Resource Recovery Corporation’s financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

Introduction

The Corporation is a quasi-public corporation, an instrumentality established in 1974 by an Act of the Rhode Island Legislature. The Corporation was created to provide and coordinate solid waste and recycling services to municipalities and businesses within Rhode Island. It is intended that the Corporation will receive sufficient revenue through solid waste tipping fees and the sale of recyclable products to be self-sufficient. The Corporation has the power to issue negotiable notes and bonds to achieve its corporate purpose, subject to the provisions of Rhode Island General Law 35-18.

The Corporation is a component unit of the State of Rhode Island (the “State”) for financial reporting purposes and as such, the annual audited financial statements of the Corporation are included in the State’s Annual Financial Report.

The powers of the Corporation are vested in a Board of Commissioners (the “Board”). As of September 2019, the Board consists of nine members, eight of which are public members appointed by the Governor with at least three being residents of the Town of Johnston (the “Town”), and the Director of Administration who serves as an ex-officio member. In making these appointments, the Governor gives due consideration to recommendations from the Mayor of the Town of Johnston, the League of Cities and Towns, representatives of commercial waste haulers and environmental advocacy organizations experienced in the field of recycling. Each commissioner serves until his or her successor is appointed by the Governor and confirmed by the Senate of the State.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Corporation’s basic financial statements, which consist of the financial statements and Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements. The financial statements report information about the Corporation based upon an accrual accounting method similar to those used by private sector companies. The financial statements include a Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and Notes to Financial Statements. These statements are prepared in conformity with accounting principles accepted in the United States of America (GAAP) and also reported under the standards issued under Governmental Accounting Standards Board (GASB).

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

The Statement of Net Position presents the financial position of the Corporation on the accrual basis of accounting. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered all its costs through its tipping fees and other charges.

The last required financial statement is the Statement of Cash Flows. The purpose of this statement is to provide information about the changes in cash and cash equivalents, resulting from operating, capital and related financing, non-capital financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of assets.

The Notes to Financial Statements provide additional information that is essential for a full understanding of the data provided in the statements. The Notes to Financial Statements can be found on pages 20-49 of this report.

Financial Highlights

The following are the key financial highlights for the year-ended June 30, 2019:

- The Corporation's FY2019 overall change in net position was an increase of \$31.4M. The Corporation ended the year with a net position of \$123.5M of which \$45.5 is unrestricted.
- Operating Revenues increased from \$63.5M in FY2018 to \$73.6M in FY2019 for an increase of \$10.1M.
- Operating Expenses decreased from \$60.3M in FY2018 to \$48.7M in FY2019 for a decrease of \$11.6M.
- Non-operating revenues / (expenses) increased by \$7.1M to \$6.6M. \$6.1M of the increase is related to the unrealized market value changed for the investments held in trust of \$5.8M plus and additional \$.3M in interest income. The remaining \$1M increase primarily related to the gain on sale of capital assets.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

Condensed Comparative Financial Information - In Thousands

The following table summarizes the changes in certain balances in the statements of net position and the statements of revenues, expenses and changes in net position as of and for the years ended June 30, 2019, 2018 and 2017.

	2019	2018	2017	FY19 vs FY18 Increase (Decrease)	FY18 vs FY17 Increase (Decrease)
Net position:					
Current assets	\$ 59,461	\$ 52,866	\$ 46,243	\$ 6,595	\$ 6,623
Capital assets, net	86,528	81,520	77,171	5,008	4,349
Other noncurrent assets	<u>115,903</u>	<u>106,045</u>	<u>101,656</u>	<u>9,858</u>	<u>4,389</u>
Total assets	<u>261,892</u>	<u>240,431</u>	<u>225,070</u>	<u>21,461</u>	<u>15,361</u>
Deferred outflows of resources	<u>11</u>	<u>--</u>	<u>--</u>	<u>11</u>	<u>--</u>
Current liabilities	13,142	19,385	15,670	(6,243)	3,715
Long-term liabilities	<u>125,242</u>	<u>128,947</u>	<u>119,932</u>	<u>(3,705)</u>	<u>9,015</u>
Total liabilities	<u>138,384</u>	<u>148,332</u>	<u>135,602</u>	<u>(9,948)</u>	<u>12,730</u>
Deferred inflows of resources	<u>9</u>	<u>9</u>	<u>--</u>	<u>--</u>	<u>9</u>
Net position	<u>\$ 123,510</u>	<u>\$ 92,090</u>	<u>\$ 89,468</u>	<u>\$ 31,420</u>	<u>\$ 2,622</u>
Components of net position:					
Net investments in Capital Assets	\$ 75,446	\$ 67,364	\$ 60,046	\$ 8,082	\$ 7,318
Restricted	2,565	2,512	2,062	53	450
Unrestricted	<u>45,499</u>	<u>22,214</u>	<u>27,360</u>	<u>23,285</u>	<u>(5,146)</u>
Total Components of Net position	<u>\$ 123,510</u>	<u>\$ 92,090</u>	<u>\$ 89,468</u>	<u>\$ 31,420</u>	<u>\$ 2,622</u>
Changes in net position:					
Operating revenues	\$ 73,627	\$ 63,519	\$ 59,697	\$ 10,108	\$ 3,822
Operating expenses	<u>48,722</u>	<u>60,305</u>	<u>46,700</u>	<u>(11,583)</u>	<u>13,605</u>
Operating income	24,905	3,214	12,997	21,691	(9,783)
Non-operating (revenues) expenses, net	<u>(6,516)</u>	<u>592</u>	<u>751</u>	<u>(7,108)</u>	<u>(159)</u>
Change in net position	<u>\$ 31,421</u>	<u>\$ 2,622</u>	<u>\$ 12,246</u>	<u>\$ 28,799</u>	<u>\$ (9,624)</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

Financial Analysis

Assets, Liabilities and Net Position – FY2019

Assets increased \$21.5M to \$261.9M in FY2019

- *Assets held in trust* increased by \$10.9M to \$109.9M. The increase was due partly to quarterly closure funding into the trust based on tons received totaling \$5.1M, offset by fees of \$0.1M. The closure cost rate is calculated yearly based on assumptions in the closure/post closure liability calculation – the FY19 rate per ton was \$5.37. Investment earnings contributed \$2.3M and unrealized gains contributed another \$3.6M.
- *Construction in progress* decreased \$6.3M to \$4.0M in FY19. The majority of the decrease was due to the completion of the Phase VI (Area 3-1 and 3-1A) cell construction. We estimate that total costs will be in excess of \$150M for the full construction of all cells in Phase VI, currently estimated to be completed sometime in the early 2030's.
- *Current Assets* increased by \$6.6M to \$59.5M. The majority of the increase was Cash and Cash Equivalents for the Sinking Fund established for the construction of a new MRF Facility / Processing Facility which increased by \$4.0M to \$8.1M.
- *Capital Assets net depreciation* increased by \$11.3M to \$73.1M. This was primarily attributable to two factors the continued construction of Phase VI cells offset by depletion and the major upgrade of our yellow iron (heavy equipment). Refer to **Note 4 – Capital Assets** for additional detail.

Liabilities decreased by \$10.0M to \$138.3M in FY2019

- *Accounts Payable* decreased by \$6.3M as a result of decreased accruals in construction costs from prior year.
- *Bonds and Notes Payable* decreased \$4.4M to \$15.2M consistent with the installment schedule.
- *Long-term portion of closure, post-closure and remediation* increased by \$0.7M to \$109M remaining relatively flat to prior year. Refer to **Note 10 – Commitments** for additional detail.

The net position totaled \$123.5M compared to \$92.1M as of June 30, 2018, an increase of \$31.4M.

Assets, Liabilities and Net Position – FY2018

Assets increased \$15.3M to \$240.4M in FY2018

- *Assets held in trust* increased by \$4.3M to \$99.0M. This increase was due to quarterly transfers into the trust based on tons received. The closure cost rate is calculated yearly based on assumptions in the closure/post closure liability calculation – the FY18 rate per ton was \$5.03. Investment earnings were offset by unrealized losses and ended up near breakeven.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

Assets, Liabilities and Net Position – FY2018 (Continued)

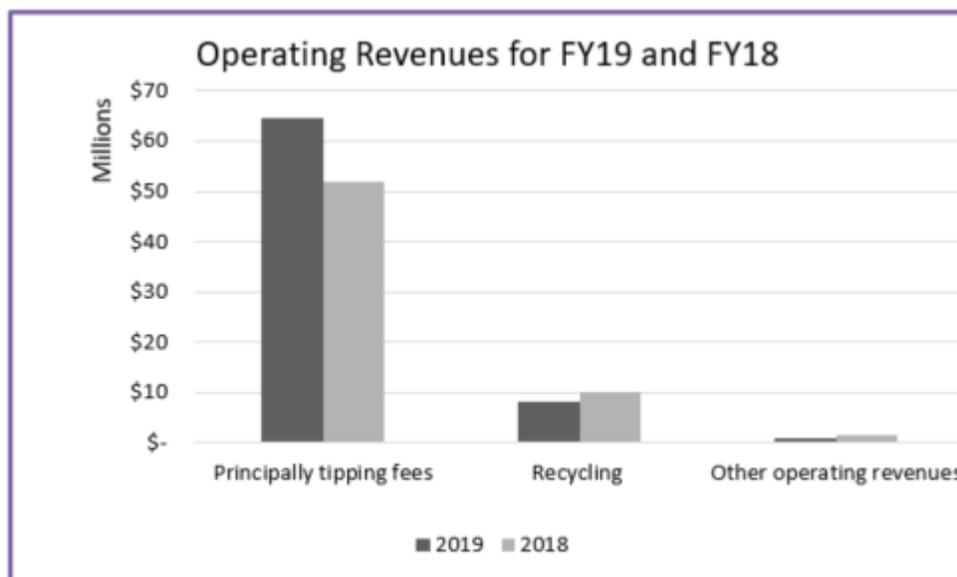
- *Construction in progress* increased \$3.3M to \$10.3M in FY18. The majority of these costs are associated with the Phase VI (Area 3) cell construction. We estimate that total costs will be in excess of \$150M for the full construction of all cells in Phase VI, currently estimated to be completed sometime in the early 2030’s. Refer to footnote 4 – capital assets for additional detail.
- *Cash and cash equivalents* increased by \$6.7M to \$41.9M.
- *Capital Assets* increased by \$1.1M to \$61.9M

Liabilities increased by \$12.7M to \$148.3M in FY2018

- *Long-term portion of closure, post-closure and remediation* increased by \$13.3M in FY2018 as the Corporation revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate was primarily attributable to leachate flows from the West Side pump. Refer to **Note 10 – Commitments** for additional detail.
- *Bonds and Notes Payable* decreased \$4.3M to \$19.7M consistent with the installment schedule.
- *Current liabilities* increased by \$3.7M

The net position totaled \$92.1M compared to \$89.5M as of June 30, 2017, an increase of \$2.6M.

Operating Revenues



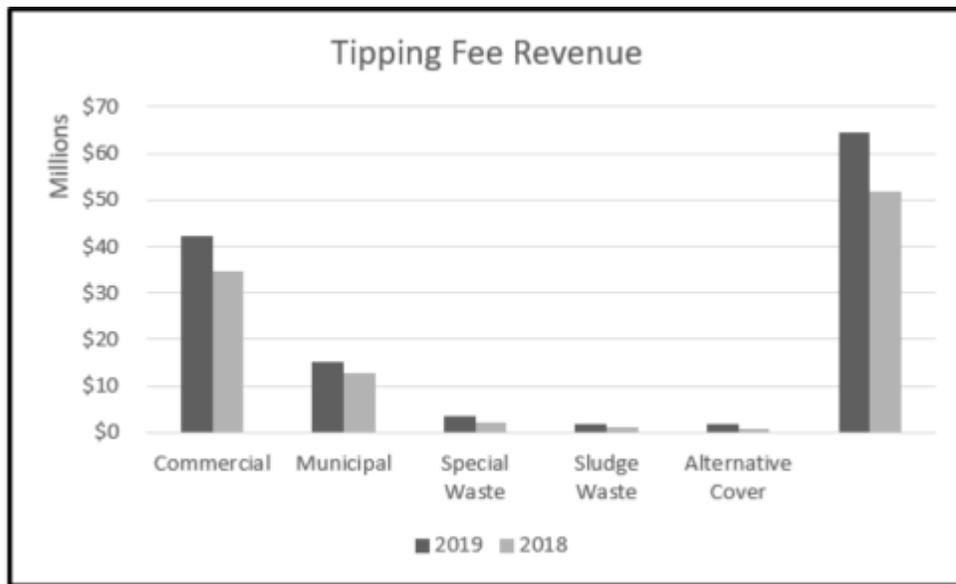
**RHODE ISLAND RESOURCE RECOVERY CORPORATION
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MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

Operating Revenues (Continued)

The \$10.1M increase in Operating Revenue in FY2019 resulted from a \$12.7M increase in Tipping Fee Revenue (Solid Waste), offset by a decrease of \$2.1M in Recycling Revenues and an additional decrease of \$0.5M on Other Operating Revenue.



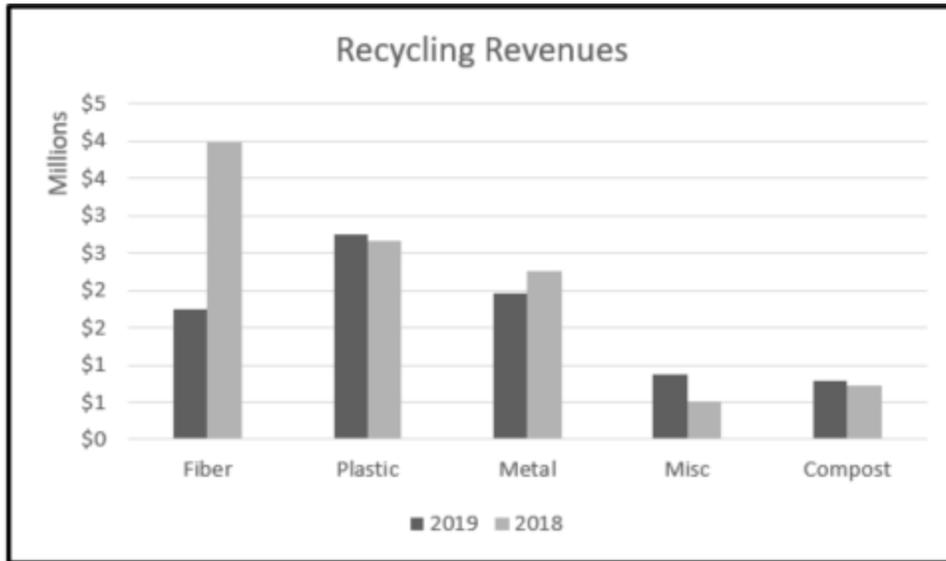
- *Tipping fee revenues* increased \$12.7M to \$64.6M in FY2019, the increase was the result of commercial and municipal tip fee increases. The solid waste tons increased slightly by 13K to 964K which continues to be above the 700 to 800K ton per year desired waste volume. We believe this trend will continue as existing landfills continue to close with no landfills opening in the region.
 - *Commercial* – tonnage decreased by 15K tons to 519K tons for FY19 while revenue increased by \$7.4M to \$42.3M. This revenue increase was due to broad based commercial price increase effective on July 1, 2018 initiated to better reflect regional market prices and fund our operations and capital needs. The increase in pricing varied by waste type, up to \$15.00 per ton for contract commercial customers. Prices per ton ranged from \$80.00 to \$115.00 per ton.
 - *Municipal* - tonnage increased by 3K tons to 323K in FY19; revenue increased by \$2.4M to \$12.8M. With tonnage relatively flat the increase in revenue was due to the base municipal tipping fee rate increase from \$39.50 in FY18 and to \$47.00 in FY19.
 - *Special/Sludge/Alternate Cover* – revenue increased by \$2.9M to \$7.3M. The increase was primarily attributable to Alternative Cover and Special Waste tonnage which are typically an accumulation of one-time projects.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

Operating Revenues (Continued)



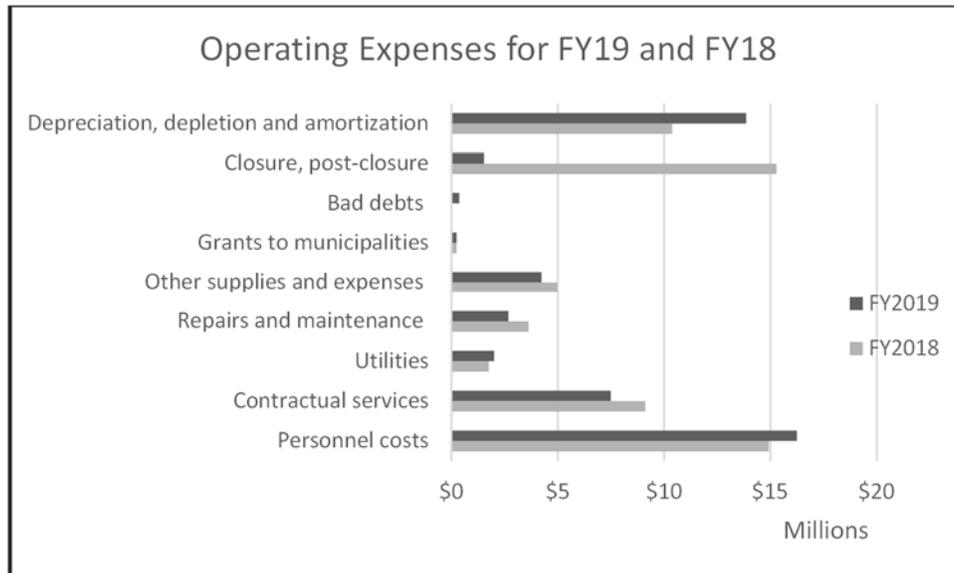
- *Recycling revenues* decreased by \$2.1M to \$8.1M. Fiber decreased by \$2.2M to \$1.7M, while plastics, metal and miscellaneous increased by \$0.1M to \$6.3M. Prices for commodities remained depressed for FY2019 since their significant decline when much tougher standards for contamination of a 0.5 percent contamination limit were put in place by China effective 2018. Fiber commodities such as mixed paper and #8 Newspaper have been especially hard hit. Prices in FY19 ranged from negative \$13.00 to positive \$2.00 and averaged negative \$4.20, meaning we had to pay to have these items recycled. This along with other uncertainties have a large impact on MRF revenues.
 - The recycling facility was not able to generate a profit and as a result, the Corporation was not able to distribute profits back to cities and towns as part of our municipal recycling profit sharing program, for the third year in a row.
- *Other Income* decreased by \$0.5M to \$0.9M was primarily the result of one-time income in prior year for the SMI lease disposal fees.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

Operating Expenses



Operating Expenses decreased by \$11.6M to \$48.7M in FY2019.

- *Personnel costs* increased by \$1.4M to \$16.3M. Salaries and overtime increased by \$1.3M, various insurances increased by \$.3M, pension plan contribution by \$.2M, these were partially offset by a decrease in Leased Labor expense of \$.4M. Variances were primarily the result of the onboarding the MRF staff.
- *Contractual services* decreased by \$1.6M from \$9.1M to \$7.5M in FY19. This is primarily due to the prior year one-time expense to transfer the pump station on Central Avenue of \$1.8M to the Town of Johnston, offset by higher than professional contractor fees.
- *Utilities* increased \$.3M to \$2M, primarily due to electricity and wastewater disposal fees.
- *Repairs and maintenance* decreased by \$.9M to \$2.7M, directly related to the purchase of new yellow iron (heavy equipment).
- *Other supplies and expenses* decreased by \$.7M to \$4.3M, primarily attributable to the decrease in purchase of aggregate materials (alternate cover), which was the results of inbound soils suitable for alternate cover.
- *Grants and profit share* to the municipalities remained flat at \$.2M.
- *Bad debt* increased by \$.4M, additional allowances were accrued.
- *Provision for landfill closure and post-closure* charged to expense decreased by \$13.75M to \$1.5M. The decrease is due to the one time catch-up in leachate treatment costs expensed in the prior year associated with increased gallons being pumped in the unlined sections of the landfill now built into the assumptions. These costs were expensed and included in the Closure/Post closure liability for FY18. This liability gets reviewed and recalculated every year and adjusted, if needed for any changes.
- *Depreciation, depletion and amortization* increased by \$3.5M to \$13.9M.

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MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

Capital Planning

The Corporation is now within its 20 year operating window before closure. What this means is cash management and cash flow along with capital planning is more critical than ever to ensure our goal of self-sustainability for the post-closure phase of the Central Landfill. Options are limited to raise capital outside of the operations as long term borrowing payment schedules will fall outside of our operating timeframe, we plan to refrain from the issuance of additional long-term debt until the future of the facility is more certain.

With this in mind, management is closely monitoring our cash position, fee structure and future cash flow needs, so that we are able to fund approximately \$137.5M in projected capital needs.

Funding will include:

- \$ 49.6M in landfill construction, specifically related to Phase VI
 - \$ 38.7M for buildings and improvements
 - \$ 19.9M for machinery, equipment and vehicles
 - \$ 6.1M sewer and other infrastructure
 - \$ 0.7M Roads and fences
 - \$ 22.5M for closure and capping
- \$137.5M Total

Long-Term Planning

Challenges for FY20 and beyond are maintaining a culture of continuous improvement, increasing our recycling volumes, lowering recycling contamination rates and breadth of materials handled, staying within the 700 to 800 thousand tons per year of desired solid waste volume to maximize landfill life, and lastly doing everything we can to promote recycling. We are focused on our mission of running a safe, environmentally compliant, and cost effective operation for the benefit of all Rhode Islanders

The last solid waste plan, titled Solid Waste 2038, was approved on May 14, 2015. As the title suggests, 2038 is the date the current landfill as permitted was expected to reach capacity, based on the assumption as described in the plan.

Additional barriers result from the greater than projected loads we’ve been experiencing. Since 2015 loads have been running 200 – 300K tons a year greater than projected. With these inbound rates, our estimated date to reach capacity is 2033/2034 (See chart below). Therefore, long-term capital plans, cash flow projections and adequate tip fees will be a critical factor to carry RIRRC through these cash intense times and maintain its’ goal of self-sustainability.

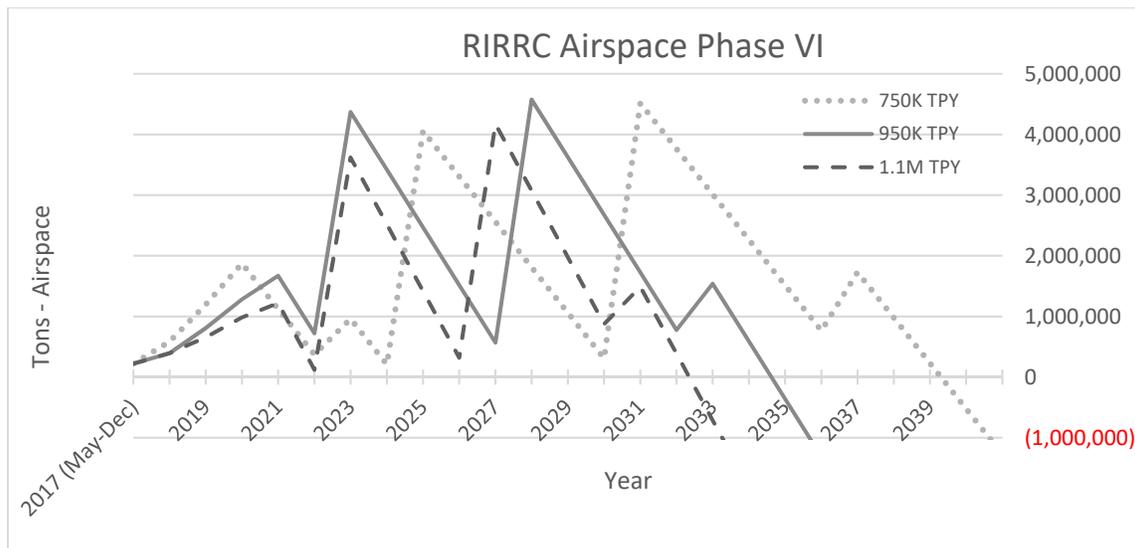
**RHODE ISLAND RESOURCE RECOVERY CORPORATION
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MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

Landfill Life

Below is an estimated timeline of the Central Landfill life. The dashed line shows airspace runout at 1.1M tons per year, the solid line at 950K tons (current loading) and the dotted line shows runout at 750K tons per year (goal). Incorporated into the graph is air-space construction for the permitted Phase VI.



Economic Factors

The Corporation’s goal is to remain economically self-sufficient while continuing to generate cash reserves to finance approximately \$17M of major capital investments in fiscal years 2020.

- We are projecting that commodities will remain at depressed rates for FY2020. However, if prices improve marginally, it’s unlikely to return the MRF to operate at a profit. If commodity prices return to a level of profitability in FY2020, municipalities will receive their 50% share.
- Commercial prices increased \$5 per ton effective on July 1, 2019. RIRRC plans to re-examine the commercial pricing structure and in-bound tonnage levels in December 2019. RIRRC continuously monitors commercial pricing and adjusts based on market conditions and cash flow needs.
- In October 2018 the municipal tip fee was recalculated as required under the State’s Administrative Procedures Act (APA). The recalculation resulted in no price increase to the municipalities. The municipal rate will remain at \$47.00 for the next two fiscal years – FY20 & FY21. This rule is reviewed every two years, with the next review in October 2020.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

JUNE 30, 2019 AND 2018

Economic Factors (Continued)

- Other price changes reflected in the FY20 Budget include a \$5.00 increase in leaf and yard to \$40.00/ton, a \$10.00 increase in Sludge/Grit/Rags to \$130.00/ton and a \$10.00 increase on tires to \$260/ton.
- RIRRC continues to closely analyze our costs needs and reduce expenses at all levels, both vertically and horizontally, while at the same time look for new revenue sources, maximize tipping revenues all while providing the same high level service.
- RIRRC is actively seeking short term options and developing strategies for long term options that extend landfill life and research alternatives for the States future disposal needs.

Request for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those interested in that information. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Rhode Island Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919-4512. Additional information is also available on our website at www.rirrc.org.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF NET POSITION

JUNE 30, 2019 AND 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 48,744,846	\$ 41,913,515
Receivables, net of allowance	7,654,700	7,142,268
Inventories	2,438,522	2,650,316
Prepaid Expenses	622,560	1,159,681
Total Current Assets	59,460,628	52,865,780
Noncurrent Assets		
Restricted assets:		
Cash and cash equivalent	2,565,278	2,511,866
Assets held in trust	109,898,122	99,038,614
Land held for sale	2,830,649	3,886,564
Capital assets:		
Non-depreciable:		
Land used in operations	9,354,983	9,354,983
Construction in progress	4,026,010	10,286,442
Depreciable:		
Capital assets, depreciable net	73,147,192	61,877,751
Other assets	609,400	609,400
Total Noncurrent Assets	202,431,634	187,565,620
Total Assets	261,892,262	240,431,400
Deferred Outflow of Resources	11,030	--
Total Assets and Deferred Outflow of Resources	\$ 261,903,292	\$ 240,431,400

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2019 AND 2018

Liabilities	2019	2018
Current Liabilities		
Accounts payable	\$ 7,826,426	\$ 14,121,419
Current portion:		
Closure, post closure	34,769	34,500
Pollution remediation	873,495	935,840
Current portion of long-term obligations	4,406,846	4,293,265
Total Current Liabilities	13,141,536	19,385,024
Noncurrent Liabilities		
Net OPEB liability	700,463	646,009
Long term portion:		
Closure, post closure	94,071,936	91,099,055
Pollution remediation	15,142,471	17,467,329
Long term obligations:		
Notes payable	2,142,877	2,392,877
Bonds payable	13,184,629	17,341,475
Total Noncurrent Liabilities	125,242,376	128,946,745
Total Liabilities	138,383,912	148,331,769
Deferred Inflow of Resources	8,814	9,691
Net Position		
Net investment in capital assets	75,446,037	67,364,521
Restricted	2,565,278	2,511,866
Unrestricted	45,499,251	22,213,553
Total Net Position	123,510,566	92,089,940
Total Liabilities, Deferred Inflow and Net Position	\$ 261,903,292	\$ 240,431,400

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating Revenues		
Charges for services, principally tipping fees	\$ 64,610,418	\$ 51,929,074
Recycling	8,106,316	10,159,514
Other operating revenues	910,812	1,430,706
Total Operating Revenues	73,627,546	63,519,294
Operating Expenses		
Personnel costs	16,288,639	14,922,045
Contractual services	7,494,720	9,119,079
Utilities	2,003,858	1,756,493
Repairs and maintenance	2,677,844	3,628,129
Other supplies and expenses	4,242,413	4,975,470
Grants to municipalities for recycling	246,114	239,443
Bad debts	372,897	1,710
Provision for landfill closure and post-closure care and pollution remediation obligations	1,534,625	15,283,095
Depreciation, depletion and amortization	13,861,238	10,379,143
Total Operating Expenses	48,722,348	60,304,607
Operating Gain	24,905,198	3,214,687
Non-Operating Revenues (Expenses)		
Interest expense	(543,224)	(651,714)
Interest and investment income	6,387,209	288,646
Loss on settlement, net	(12,500)	(236,992)
Gain on disposal of assets, net	683,943	7,700
Total Non-Operating Revenues (Expenses), Net	6,515,428	(592,360)
Change in Net Position	31,420,626	2,622,327
Net Position, Beginning of Year	92,089,940	89,467,613
Net Position, End of Period	\$ 123,510,566	\$ 92,089,940

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Fows from Operating Activities		
Payments received from providing services	\$ 72,204,292	\$ 62,517,566
Cash receipts from other operating revenue	910,810	1,430,707
Payments to suppliers for goods and services	(19,876,185)	(12,324,605)
Payments to employees for services	(16,199,693)	(14,969,442)
Payments in connection with the Host Community Agreement	(4,140,632)	(5,828,214)
Payments to municipalities for recycling grants	<u>(246,112)</u>	<u>(239,444)</u>
Net Cash Provided by Operating Activities	<u>32,652,480</u>	<u>30,586,568</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of assets	258,579	7,700
Payments for capital assets and deferred costs	(18,204,978)	(14,735,176)
Proceeds from sale of land	1,499,950	--
Interest paid on notes and bonds payable	(543,224)	(651,715)
Principal paid on notes and bonds payable	(4,293,265)	(4,182,789)
Payments of legal settlement, net	<u>(12,500)</u>	<u>(236,992)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(21,295,438)</u>	<u>(19,798,972)</u>
Cash Flows from Investing Activities		
Purchase of investments	(12,325,789)	(6,696,576)
Maturity of investments	1,466,281	2,334,338
Interest and investment income	<u>6,387,209</u>	<u>288,645</u>
Net Cash Used in Investing Activities	<u>(4,472,299)</u>	<u>(4,073,593)</u>
Net Increase in Cash and Cash Equivalents	6,884,743	6,714,003
Cash and Cash Equivalents, Beginning of Year	<u>44,425,381</u>	<u>37,711,378</u>
Cash and Cash Equivalents, End of Year	<u>\$ 51,310,124</u>	<u>\$ 44,425,381</u>

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 24,905,198	\$ 3,214,687
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	13,861,238	10,379,143
Gain on disposal and sale of assets	(239,908)	7,700
Gain on disposal and sale of land	(444,032)	--
Changes in assets and liabilities:		
Accounts receivable	(512,432)	428,985
Inventories	211,794	331,848
Prepaid expenses	537,121	(697,816)
Accounts payable	(6,306,900)	3,803,744
Net OPEB liability	54,454	35,534
Landfill closure and post-closure care and pollution remediation obligation	<u>585,947</u>	<u>13,082,743</u>
Net Cash Provided by Operating Activities	<u>\$ 32,652,480</u>	<u>\$ 30,586,568</u>
Cash and Cash Equivalents as Reported in the Financial Statements		
Consist of:		
Unrestricted:		
Cash and cash equivalents	\$ 48,744,846	\$ 41,913,515
Restricted:		
Cash and cash equivalents	<u>2,565,278</u>	<u>2,511,866</u>
Total Cash and Cash Equivalents	<u>\$ 51,310,124</u>	<u>\$ 44,425,381</u>

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Rhode Island Resource Recovery Corporation (the “Corporation”) is a quasi-public corporation and a public instrumentality established in 1974 by an Act of the Rhode Island Legislature. The Corporation was created to provide and coordinate solid waste management services to municipalities and persons within the State of Rhode Island (the “State”). The Corporation’s enabling statute has subsequently been amended to allow for the acquisition and development of certain land located near the existing landfill in the Town of Johnston, Rhode Island. The Corporation’s revenues are derived principally from tipping fees charged for the disposal of solid waste and from the sale of recyclable products. It is intended that the Corporation will receive sufficient revenue through sale of recyclable products and fees for its services to be financially self-sufficient. The Corporation grants credit to its customers, primarily commercial entities and municipalities within the State. The Corporation has the power to issue negotiable notes and bonds to achieve its corporate purpose, subject to the provisions of Rhode Island General Law 35-18.

The Corporation is a component unit of the State for financial reporting purposes and, as such, the financial statements of the Corporation are included in the State's Comprehensive Annual Financial Report.

The Corporation is exempt from federal and state income taxes.

Financial statement presentation, measurement focus and basis of accounting:

The Corporation engages only in business-type activities. Business-type activities are activities that are financed in whole or in part by fees charged to external parties.

The Corporation uses the economic resources measurement focus and accrual basis of accounting. The Corporation applies all pronouncements of the Governmental Accounting Standards Board. Under the accrual basis revenues are recognized when earned and expenses when the liability is incurred, regardless of the timing of the related cash flows.

The Corporation distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Corporation’s principal ongoing operations. Operating expenses include the cost of services provided, administrative expenses, and depreciation expense. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

USE OF 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions have been made in the areas of landfill closure and post-closure care costs, pollution remediation costs, landfill capacity and depletion rates, net realizable value and use of land, particularly eminent domain properties, and the payable due the City of Cranston. Actual results could differ from estimates.

CASH AND CASH EQUIVALENTS

The Corporation considers all highly liquid investments, such as repurchase agreements and money market accounts, with a maturity of three months or less when purchased to be cash equivalents.

ACCOUNTS RECEIVABLE

Receivables are reported at their gross values when earned and are reduced by the estimated portion that is expected to be uncollectible. This estimate is based on history, industry trends and current information regarding the credit worthiness of the debtors. The Corporation has contracts with most of its customers related to pricing, payment terms and general requirements. The Corporation does not require collateral from any of its customers. The Corporation has established an allowance for doubtful accounts receivable of \$1,334,000 and \$962,000 as of June 30, 2019 and 2018, respectively.

INVESTMENTS

Investments, including restricted investments, are recorded at fair value or at amortized cost which approximates fair value. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction involving market participants at the measurement date.

INVENTORIES

Inventories primarily consist of spare parts and materials and are stated at cost.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

ASSETS HELD IN TRUST

Restricted investments held in trust are held by independent trustees for purposes of meeting the financial requirements of landfill closure and post-closure care costs and pollution remediation costs. Investments are classified collectively as long-term despite the individual maturities, duration, or classification of the investments, since all are intended to fund the payment of long-term liabilities.

RESTRICTED ASSETS – (RESTRICTED NET POSITION)

Unexpended proceeds from the sale of revenue bonds of \$2,565,278 and \$2,511,866, for June 30, 2019 and 2018, respectively, whose use is specified or limited by bond resolutions, enabling legislation, laws or third parties are classified as restricted assets.

CAPITAL ASSETS AND DEPRECIATION

Capital assets used in primary operations are stated at cost. The Corporation defines capital assets as assets with an initial, individual cost of more than \$10,000 or repairs in excess of 10% of the assets original cost and having initial life of one year or greater. Ordinary maintenance and repair expenses are charged directly to operations as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Land improvements	6
Buildings and improvements	15-30
Machinery and equipment	5-10
Sewer and leachate collection systems	30
Furniture and equipment	5-10
Signs, fences and roads	3-5

The cost of the landfill and land improvements is being depleted over the estimated useful capacity of the respective sites (Note 10).

Land acquired through eminent domain intended for resale is stated at the lower of cost or net realizable value. The cost of property acquired through eminent domain not intended for resale is being amortized over the estimated life of the currently licensed landfill (Note 5). The Corporation annually evaluates all long-lived assets for impairment. Management estimates no impairments as of June 30, 2019 and 2018.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

DEFERRED CHARGES

Deferred charges, which are included in construction in progress on the statement of net position, include legal fees, permitting and engineering costs associated with the licensing, development (siting) or expansion of additional landfill phases and certain costs incurred to ready additional landfill phases for use. These costs are deferred and will be recoverable through future revenue or will benefit future operations. An application for licensure of Phase VI was submitted to the Rhode Island Department of Environmental Management (“RIDEM”) and was granted during fiscal year 2011. Phase VI opened in December 2015.

LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

The Corporation provides for future closure and post-closure care costs of the various phases of the landfill as those phases are utilized. As additional phases are licensed and utilized (Note 10), additional closure and post-closure care costs are provided for based upon management’s and outside engineers’ estimates of such costs and the percentage of capacity used to date.

POLLUTION REMEDIATION OBLIGATIONS

The Corporation provides for pollution remediation obligations when it becomes obligated for remediation and the costs are estimable. The Corporation undertakes periodic inspections of its properties (Note 5) to determine whether any potential liability relating to environmental matters exists. Pollution remediation obligations are measured based on the expected future cash flows required to remediate the property and recorded at current value of costs.

NET POSITION

The Corporation’s net position consists of the following three components:

Net investment in capital assets - represents the capital assets, reduced by accumulated depreciation and by the outstanding balances of bonds and other debt used to acquire, construct or improve these assets.

Restricted - those assets that have been limited to uses specified either externally by creditors, contributors, laws or regulations of other governments or internally by enabling legislation or law.

Unrestricted - a residual category for the balance of net position.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

NET POSITION (CONTINUED)

When both restricted and unrestricted resources are available for use, it is the Corporation's practice to use restricted resources first, then unrestricted.

NOTE 2 – DEPOSITS

The carrying amount of the Corporation's cash deposits, consisting of checking accounts, money market accounts and certificates of deposit totaled \$10,553,153 and \$6,931,930 as of June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, the bank balance for these accounts totaled \$11,283,579 and \$7,341,310, respectively.

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. In accordance with Chapter 35-10.1 of the Rhode Island General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, which are time deposits with maturities greater than sixty (60) days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, regardless of maturity. None of the cash deposits of the Corporation were required to be collateralized as of June 30, 2019 and 2018 pursuant to Chapter 35-10.1 of the Rhode Island General Laws.

The Corporation's policy for custodial credit risk is consistent with Chapter 35-10.1 of the Rhode Island General Laws. The Corporation's deposits are held in depository institutions, which maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its deposits. The collateral is kept in the custody of the trust department of the pledging institution. As of June 30, 2019 all deposits are collateralized, while in 2018 \$169,065 of the Corporation's cash deposits were uninsured and uncollateralized.

Investments under a repurchase agreement and in commercial paper totaling \$40,756,971 and \$37,493,451 as of June 30, 2019 and 2018, respectively, are included in cash and cash equivalents in the accompanying statement of net assets. For purposes of disclosure, such amounts are considered investments and are included in the disclosure in Note 3.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2 – DEPOSITS (CONTINUED)

A reconciliation of the Corporation's cash deposits as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 7,987,874	\$ 4,420,064
Restricted cash and cash equivalents	<u>2,565,278</u>	<u>2,511,866</u>
Deposits	<u>\$ 10,553,152</u>	<u>\$ 6,931,930</u>

NOTE 3 – INVESTMENTS

The Corporation's general investment policy limits the investment of corporate funds to the following financial instruments: (1) U.S. Treasury notes/bills; (2) U.S. Government-backed obligations; (3) obligations of the State, and agencies or political subdivisions thereof; (4) obligations of any other state, its agencies or political subdivisions thereof, that have been assigned an investment grade rating by at least one nationally recognized rating agency; (5) repurchase agreements backed by collateral consisting of instruments identified in (1) or (2) above; and (6) deposits, to the extent that they are insured in financial institutions which are incorporated in, or chartered by, the State. For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation does not have a policy for custodial credit risk beyond that which is required under Rhode Island General Laws. Rhode Island General Laws permit the Corporation to invest any funds not required for immediate use, at the discretion of the Corporation. The Corporation's investments, excluding amounts invested under the repurchase agreements, were not subject to custodial credit risk as they are held by a trustee in the Corporation's name. The Corporation's investments under the repurchase agreements were exposed to custodial credit risk, as the underlying securities are held by the investment's counterparty, not in the name of the Corporation. The investments under the repurchase agreements were collateralized by U.S. Government securities held by the investment's counterparty, not in the name of the Corporation.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – INVESTMENTS (CONTINUED)

The Corporation's investments as of June 30, 2019 and 2018 consist of the following:

	Fair Value		Weighted Average Maturity (Years)	
	2019	2018	2019	2018
Repurchase Agreement	\$ 40,756,971	\$ 37,493,451	Daily	Daily
Short-Term Bond Portfolio	54,415,726	49,367,743	2.90 yrs	2.80 yrs
TIPS Portfolio	27,004,557	24,937,808	2.70 yrs	2.60 yrs
Inter.-Term Bond Portfolio	<u>28,477,839</u>	<u>24,733,063</u>	7.30 yrs	7.20 yrs
 Total Fair Value	 <u>\$ 150,655,093</u>	 <u>\$ 136,532,065</u>		

A reconciliation of the Corporation's investments as of June 30, 2019 and 2018 are as follows:

	2019	2018
Cash and equivalents	\$ 40,756,971	\$ 37,493,451
Investments - Held in trust	<u>109,898,122</u>	<u>99,038,614</u>
 Total	 <u>\$ 150,655,093</u>	 <u>\$ 136,532,065</u>

Average ratings of the investments comprising the debt related securities above, as determined by Moody's are as follows, at June 30, 2019:

	Repurchase Agreement	Fixed Income Securities	Total
Treasury/Agency	\$ 40,756,971	\$ --	\$ 40,756,971
AAA	--	81,118,975	81,118,975
AA	--	3,315,758	3,315,758
A	--	10,913,427	10,913,427
BBB	<u>--</u>	<u>14,549,962</u>	<u>14,549,962</u>
	<u>\$ 40,756,971</u>	<u>\$ 109,898,122</u>	<u>\$ 150,655,093</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – INVESTMENTS (CONTINUED)

Average ratings of the investments comprising the debt related securities above, as determined by Moody's are as follows, at June 30, 2018:

	Repurchase Agreement	Fixed Income Securities	Total
Treasury/Agency	\$ 37,493,451	\$ --	\$ 37,493,451
AAA	--	73,469,133	73,469,133
AA	--	3,091,956	3,091,956
A	--	10,358,000	10,358,000
BBB	--	12,119,525	12,119,525
	<u>\$ 37,493,451</u>	<u>\$ 99,038,614</u>	<u>\$ 136,532,065</u>

RISKS

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in a debt instrument. The Corporation relies on the expertise of the independent trustees to manage the Corporation's interest rate risk. The trustees' policy concerning interest rate risk is based upon the concept that a properly diversified bond portfolio is the key to limiting overall risk exposure, generating a predictable stream of income and preserving capital. The trustees seek to limit interest rate risk in any kind of interest rate environment through managing the portfolio's maturity and duration.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – INVESTMENTS (CONTINUED)

RISKS (CONTINUED)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Corporation has no investment policy that would further limit its investment choices beyond those limited by Rhode Island General Laws and the Master Indenture of Trust related to revenue bonds issued by the Corporation. The Corporation is permitted 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 Rhode Island or of any political subdivision thereof, provided such obligations are rated within one of the top three rating categories of any recognized rating service, and corporate bonds, notes and/or paper with an investment grade rating A3 or higher. The Corporation's investments under the repurchase agreements were unrated as of June 30, 2019, however, collateralized at 102% while in overnight status. FDIC insurance is provided up to \$250,000 per tax identification number. Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer regardless of its credit history. The Corporation relies on the expertise of the independent trustees to manage the trust funds' concentration of credit risk. The trustees' policy concerning concentration of credit risk recognizes the importance of portfolio diversification.

RESTRICTED ASSETS HELD IN TRUST

The Corporation's restricted assets held in trust are held and managed by independent trustees for purposes of funding future landfill closure and post-closure care costs and pollution remediation costs (Note 10).

The Corporation has established an investment policy over these funds whereby the primary objective is the attainment of a high degree of income while considering safety of principal. The Corporation's policy states that safety, liquidity and interest rate risk standards should not be compromised in favor of increased rate of return. Currently, the assets are invested in government-backed securities. Through June 30, 2019 these bond funds were allocated on a 25% TIPS, 25% Intermediate-term investments grade and 50% Short-term investment grade basis as directed by the board approved investment policy. Investments in bonds are not insured.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – INVESTMENTS (CONTINUED)

INVESTMENTS MEASURED AT FAIR VALUE

The Corporation categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Corporation has the following recurring fair value measurements as of June 30, 2019:

Mutual funds invested in U.S. Governments backed securities of \$109.9 million are valued using quoted market prices (Level 1 inputs)

RESTRICTED ASSETS

Restricted assets as of June 30, 2019 and 2018, consisting of cash and cash equivalents, are restricted as follows:

	<u>2019</u>	<u>2018</u>
Mandated by Bond Indentures:		
Project Account - Series 2013	\$ <u>2,565,278</u>	\$ <u>2,511,866</u>

The Project Account contains the proceeds of the Corporation's 2013 bond issuance and is used for the payment of eligible project disbursements.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2019:

	Balance July 1, 2018	Increases	Decrease	Balance June 30, 2019
Capital assets being depreciated:				
Land, residential buffer	\$ 4,210,896	\$ --	\$ --	\$ 4,210,896
Capital improvements	122,246,205	15,363,475	--	137,609,680
Automobiles and trucks	1,500,048	205,905	(158,665)	1,547,288
Buildings and improvements	68,086,976	1,051,106	--	69,138,082
Computers and equipment	49,125,740	8,179,135	(5,060,881)	52,243,994
Other depreciable property	6,011,732	381,566	--	6,393,298
Total capital assets being depreciated	<u>251,181,597</u>	<u>25,181,187</u>	<u>(5,219,546)</u>	<u>271,143,238</u>
Less accumulated depreciation and depletion:				
Land, residential buffer	(4,210,896)	--	--	(4,210,896)
Capital improvements	(97,088,624)	(8,366,031)	--	(105,454,655)
Automobiles and trucks	(1,355,505)	(81,431)	158,665	(1,278,271)
Buildings and improvements	(41,914,228)	(1,733,052)	--	(43,647,280)
Computers and equipment	(40,395,840)	(3,272,940)	5,010,373	(38,658,407)
Other depreciable property	(4,338,753)	(407,784)	--	(4,746,537)
Total accumulated depreciation and depletion	<u>(189,303,846)</u>	<u>(13,861,238)</u>	<u>5,169,038</u>	<u>(197,996,046)</u>
Total capital assets being depreciated, net	61,877,751	11,319,949	(50,508)	73,147,192
Non-depreciable capital assets:				
Land used in operations	9,354,983	--	--	9,354,983
Construction in progress	10,286,442	10,451,127	(16,711,559)	4,026,010
Capital assets, net	<u>\$ 81,519,176</u>	<u>\$ 21,771,076</u>	<u>\$ (16,762,067)</u>	<u>\$ 86,528,185</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 4 – CAPITAL ASSETS (CONTINUED)

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	Balance July 1, 2017	Increases	Decrease	Balance June 30, 2018
Capital assets being depreciated:				
Land, residential buffer	\$ 4,210,896	\$ --	\$ --	\$ 4,210,896
Capital improvements	112,838,646	9,407,559	--	122,246,205
Automobiles and trucks	1,788,177	63,777	(351,906)	1,500,048
Buildings and improvements	67,957,886	129,090	--	68,086,976
Computers and equipment	47,572,914	1,738,304	(185,478)	49,125,740
Other depreciable property	5,720,017	291,715	--	6,011,732
Total capital assets being depreciated	240,088,536	11,630,445	(537,384)	251,181,597
Less accumulated depreciation and depletion:				
Land, residential buffer	(4,210,896)	--	--	(4,210,896)
Capital improvements	(91,228,238)	(5,860,386)	--	(97,088,624)
Automobiles and trucks	(1,655,060)	(52,351)	351,906	(1,355,505)
Buildings and improvements	(40,043,669)	(1,870,559)	--	(41,914,228)
Computers and equipment	(37,973,695)	(2,437,934)	15,789	(40,395,840)
Other depreciable property	(4,180,840)	(157,913)	--	(4,338,753)
Total accumulated depreciation and depletion	(179,292,398)	(10,379,143)	367,695	(189,303,846)
Total capital assets being depreciated, net	60,796,138	1,251,302	(169,689)	61,877,751
Non-depreciable capital assets:				
Land used in operations	9,354,983	--	--	9,354,983
Construction in progress	7,019,722	17,652,512	(14,385,792)	10,286,442
Capital assets, net	<u>\$ 77,170,843</u>	<u>\$ 18,903,814</u>	<u>\$ (14,555,481)</u>	<u>\$ 81,519,176</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 5 – LAND USED IN OPERATIONS

Land used for operations consist of all operational lands that are not licensed landfill phases. These lands are located to the West and East of the main landfill site. To the West these lands are largely comprised of forested areas while to the East they are comprised of the land that the Corporation's administrative building, tipping facility, scale houses and materials manufacturing facility currently occupy.

The Corporation is continually evaluating the intended use and corresponding valuation of these lands to ensure proper presentation in these financial statements. Based on its characteristics, land classifications in the financial records and the corresponding valuations may change over time based on changes in the Corporation's operations.

NOTE 6 – LAND HELD FOR SALE

During 1998, the Corporation received authorization from the Rhode Island General Assembly to develop certain property it had acquired through eminent domain. Initially, 162 acres of property situated south and East of the landfill were identified as potentially developable into an industrial park. Subsequently, additional developable acreage was reclassified to land held for development and additional parcels were acquired through 2006.

Land held for sale consists of three lots. These lots are located in the industrial park. Lot 7 is 7.03 acres and located on Green Earth Avenue, lots 1 and 3 are 8.68 and 3.10 acres, respectively, located on Recycle Road. The land held for sale is carried at the lower of historical cost or fair value.

A fourth lot, located on 68 and 70 Shun Pike and consisting of 18.7 total acres, 16.9 of which are buildable acres was merged with lot 38 of approximately 3 acres. These two lots were then subdivided into two separate lots. These new lots known as Lot 1 - 5.2 acres and Lot 2 - 16.6 acres. Lot 1 is being kept by RIRRC and is not held as Land for Sale. Lot 2 was sold on October 29, 2018 for \$1,500,000. The adjusted basis of the property was \$1,055,915. The sale of the land resulted in a net gain recorded by the Corporation in the amount of \$444,035, which has been included in non-operating revenue in the accompanying statements.

NOTE 7 – LONG-TERM OBLIGATIONS

In May 2013, the Corporation issued Resource Recovery System Revenue Bonds, Leachate Pretreatment Facility Project, Series 2013, in the aggregate principal amount of \$40,000,000. These bonds bear an interest rate of 2.78% with a maturity date of May 31, 2023; annual principal and interest installments are required in accordance with the schedule provided below. The Series 2013 may be prepaid, as a whole or in part, at any time at the option of the

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 7 – LONG-TERM OBLIGATIONS (CONTINUED)

Corporation at a prepayment price equal to the principal amount, plus accrued interest plus a yield maintenance fee. The yield maintenance fee is calculated as the difference between the rate on United States Treasury securities with a maturity date of May 31, 2023 and the “cost of funds” component of the interest rate on the Series 2013 bonds.

Outstanding indebtedness is collateralized by all net revenues of the Corporation, certain restricted funds created pursuant to the bonds' issuance, and any revenues and property specifically conveyed, pledged, assigned or transferred by the Corporation as additional security for the bonds.

The Bond Indenture contains certain restrictive covenants. As of June 30, 2019 and 2018, the Corporation was in compliance with all bond indenture covenants.

Bonds payable as of June 30, 2019 and 2018 are summarized as follows:

	2019	2018
Resource Recovery System Revenue Bonds, Series 2013	\$ 17,341,475	\$ 21,384,740
Less: current portion	(4,156,846)	(4,043,265)
	\$ 13,184,629	\$ 17,341,475

Aggregate scheduled principal and interest payments due on the bonds through maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 4,156,846	\$ 439,008	\$ 4,595,854
2021	4,273,616	322,237	4,595,853
2022	4,393,667	202,187	4,595,854
2023	4,517,346	78,507	4,595,853
	\$ 17,341,475	\$ 1,041,939	\$ 18,383,414

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 7 – LONG-TERM OBLIGATIONS (CONTINUED)

NOTES PAYABLE

As part of a legal settlement with the Town of Johnston (the Host Community) concerning odor conditions, RIRRC amended its Host Community agreement for the payment of a \$1,500,000 installment note over 14 years, equal to \$107,143 per year. As of June 30, 2019 and 2018 the amounts owed were \$964,286 and \$1,071,428, respectively. A second settlement was executed on January 27, 2016. Under this settlement, the Town of Johnston assigned certain rights it obtained under a settlement agreement with Broadrock Gas Services LLC to RIRRC. The rights assigned concerned the obligation of Broadrock to transfer the operations of the gas collection system to an independent third party operator and its enforcement rights associated with the obligation. For the assignment of these rights, RIRRC agreed to pay the Town a \$2,000,000 installment note over 14 years, equal to \$142,857 per year. As of June 30, 2019 and June 30, 2018 the amount owed were \$1,428,571 and \$1,571,429, respectively.

Changes in long-term obligations for the years ended June 30, 2019 and 2018 are as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
Bonds payable	\$21,384,740	\$ --	\$ 4,043,265	\$17,341,475	\$ 4,156,846
Notes payable	<u>2,642,877</u>	<u>--</u>	<u>250,000</u>	<u>2,392,877</u>	<u>250,000</u>
	<u>\$24,027,617</u>	<u>\$ --</u>	<u>\$ 4,293,265</u>	<u>\$19,734,352</u>	<u>\$ 4,406,846</u>
	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Bonds payable	\$25,317,529	\$ --	\$ 3,932,789	\$21,384,740	\$ 4,043,265
Notes payable	<u>2,892,877</u>	<u>--</u>	<u>250,000</u>	<u>2,642,877</u>	<u>250,000</u>
	<u>\$28,210,406</u>	<u>\$ --</u>	<u>\$ 4,182,789</u>	<u>\$24,027,617</u>	<u>\$ 4,293,265</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 8 – HOST COMMUNITY AGREEMENT

In accordance with State law, the Corporation is required to make payments to the Town of Johnston, Rhode Island (the “Town”), the community where its landfill is sited (the “Host Community”). On April 2, 1996, the Corporation's Board ratified a comprehensive agreement with the Host Community, which supersedes substantially all prior agreements between them and provides for the unimpeded continuation of the Corporation's operations in the Town. The comprehensive agreement, which remains in effect as long as the landfill is owned and operated, provided for the immediate payment of \$3,150,000 to the Host Community in full settlement of all outstanding amounts. The comprehensive agreement also provides for annual payments to the Host Community in the base amount of \$1,500,000 plus 3.5% of the Corporation's annual gross revenue, as defined in the comprehensive agreement, commencing April 1, 1996. The base amount is subject to a 10% escalator every five years beginning April 1, 2001. The comprehensive agreement also calls for the waiver of substantially all tipping fees and municipal solid waste disposal fees from the Host Community for the agreement's term. Tipping fees waived for the years ended June 30, 2019 and 2018 totaled approximately \$1,055,234 and \$925,371, respectively. Amounts incurred under the agreement for the years ended June 30, 2019 and 2018 were \$4,171,991 and \$4,033,181, respectively, of which \$1,066,517 and \$1,035,158 remained unpaid and is included in accounts payable and accrued expenses as of June 30, 2019 and 2018, respectively.

Additionally, beginning in fiscal year 2006, the Corporation was required to collect and remit to the Town a \$3 per vehicle surcharge, as approved by Rhode Island General Assembly, for all non-municipal landfill customers. Surcharge amounts collected and remitted to the Town totaled approximately \$402,861 and \$407,742 for the years ended June 30, 2019 and 2018, respectively. Due to the fact the current agreement is over 20 years old, the Town of Johnston and RIRRC are reviewing the Host Community Agreement with the intention of updating the current agreement in both parties best interest.

NOTE 9 – SITE LEASE AND LANDFILL GAS DELIVERY AND RELATED AGREEMENTS

On May 1, 1987, the Corporation entered into a 30-year lease agreement with a lessee for royalty payments to the Corporation based on sales of methane gas recovered by the lessee from the Corporation's landfill site. In general, royalty payments to the Corporation were 15% of net revenues, as defined, for the first 15 years of operation and vary from 15% to 18% thereafter depending on production.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

**NOTE 9 – SITE LEASE AND LANDFILL GAS DELIVERY AND RELATED AGREEMENTS
(CONTINUED)**

On August 1, 2003, the Corporation entered into a revised methane gas royalty agreement whereby the Corporation agreed to subcontract the management and operation of its gas collection system. The Corporation agreed to pay the operator a \$100,000 per year management fee and provide funding for all costs in excess of revenues, if any, incurred by the operator. In exchange, the Corporation receives 15% of net revenues from the sale of landfill gases, as defined by the revised agreement, and 15 cents per million BTU, escalated annually, for each kilowatt per hour generated. In addition, the Corporation entered into an Attribute Agreement with the operator whereby the Corporation receives 15% of the sale of environmental attributes, such as renewable energy credits. The revised methane gas royalty agreement expires when the operation of the gas collection facility to generate power is no longer economically feasible to continue.

On November 17, 2008, the Corporation entered into an amended and restated site lease and landfill gas delivery agreement. Effectively, the site lease and the amended gas services agreement supersede the terms and rights of the prior agreements described above. However, the amended site lease agreement stipulates that payments to the Corporation will continue to be made in accordance with the terms of the 1987 and 2003 agreements, thus remaining unchanged until the point in time when the lessee acquires the Corporation's gas collection system and assumes full responsibility for all costs to operate and maintain the system. At such time, the methodology for calculating royalty payments will change, resulting in a significant reduction in royalty revenues. In June 2013, the lessee acquired the gas collection system. Since this date, no royalties have been received by the Corporation under the revised methodology. Monthly royalty payments to the Corporation will be calculated as a) the number of hours in a month, multiplied by b) 12 megawatts per hour, multiplied by c) net revenues for the month, divided by d) the total number of megawatt-hours of electricity produced. The monthly royalty payment due to the Corporation is reduced on a decreasing percentage basis each year from 100% in years 1 through 5 to 0.0% in year 10 and thereafter and is further offset by a monthly credit to the operator on a dollar for dollar basis up to a maximum of \$416,667 a month.

In conjunction with the amended and restated site lease and landfill gas delivery and agreement, the Corporation and the lessee also entered into a purchase and sale agreement for the Corporation's gas collection system. The sales agreement stipulated that the lessee could purchase the Corporation's rights, title and interest in the gas collection system for the price of \$1.00. The sale was consummated in fiscal year 2011 and ownership of the Corporation's gas collection system was transferred to the lessee/owner.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – SITE LEASE AND LANDFILL GAS DELIVERY AND RELATED AGREEMENTS
(CONTINUED)

The loss on the sale of the gas collection system is offset by future decreases in the Corporation's operating costs in addition to a reduction in the Corporation's liability for landfill closure and post-closure care. During FY2013, the owner of the gas collection system completed the construction of a landfill gas to energy facility. On the first date on which the plant makes commercial deliveries of electric power the responsibility for all costs to operate and maintain the gas collection system, including replacement items for the gas system, expansion of or capital improvements to the gas system transfers to the owner. The Corporation estimated this date to be March 1, 2013, and accordingly only recorded expenditures relating to the gas collection system through that date. These agreements remain in full force and effect so long as the owner or any affiliate is capable of generating electric energy from the landfill gas on an economic basis. Accordingly and as more fully disclosed in Note 10 C, the Corporation adjusted its estimated landfill closure and post-closure liability at June 30, 2012 and subsequent periods to reflect the transfer of responsibilities for these costs. Additionally, as discussed in Note 10 E, the Corporation is still responsible for a portion of the sulphur related operating, major maintenance and capital costs.

On September 25, 2014, a Non-Binding Memorandum of Understanding was reached in which RIRRC would pay Broadrock \$1,250,000 as a partial settlement relating to the operation of the gas collection system, with a remainder of \$1,250,000 to be paid upon execution of a definitive agreement. On July 11, 2016, RIRRC filed a complaint in U.S. District Court alleging breach of settlement agreement to engage a third-party independent contractor to design, build, operate, maintain and repair the gas collection system and to comply with all compliance, reporting and permitting obligations directly connected to the gas collection system. On October 15, 2018 an agreement was reached. Final payment of the \$1,250,000 was made on November 13, 2018.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 10 – COMMITMENTS

A. *CONTRACT FOR SEWER AND WATER FACILITIES*

On September 27, 1988, the Corporation entered into an agreement with the City of Cranston, Rhode Island (the “City”), whereby the City agreed to furnish sewer and water services to the Corporation's facilities in Johnston, Rhode Island. In August 1998, the Corporation and the City entered into a revised agreement. Under the terms of the revised agreement, the Corporation was required to pay an initial impact fee and was required to pay sewer assessments, sewer surcharges and industrial pre-treatment fees incurred at the same rates paid by comparable industrial sewer users located in the City of Cranston, Rhode Island (the “City”). The Corporation does not owe any impact fees for water supply capacity and will not owe any impact fees for utilization of 400,000 gallons per day (average daily flow “ADF”) of sewer capacity to be reserved by the City (at a maximum rate not to exceed 600 gallons per minute) in its sewage treatment facilities and its sewage collection and pumping station facilities. However, the Corporation agreed to pay the cost of any applicable impact fees, which might be incurred as a result of the Corporation’s need to transmit in excess of 400,000 gallons per day ADF of sewer capacity, or if the Corporation has a need to exceed the maximum rate of discharge beyond 600 gallons per minute, or any increase in biological or chemical loading above stated pretreatment standards. Currently, RIRRC is not using any sewer or water services from the City.

B. *LICENSED LANDFILL AREA*

The current licensed landfill consists of areas known as Phases I, II, III, IV, V and VI. The capacity of Phase I was reached in May 1993. The capacities of Phases II and III were reached in December 2002. The capacity of Phase IV was reached during fiscal year 2012. Phases V and VI are active.

A final construction certification report for Phase V Area IA was approved by the Rhode Island Department of Environmental Management (“RIDEM”) on September 24, 2004, which allowed the Corporation to commence disposal activities in that area. Subsequently, approvals of construction certifications for Phase V Area IB, IC and ID have been received. Based on estimates by the Corporation’s engineers, approximately 94.26% of the capacity for Phase V has been used as of June 30, 2019 and this phase has temporarily stopped accepting waste. On February 8, 2011 a permit was approved by the RIDEM to operate Phase VI of the Central Landfill. Phase VI started accepting waste in December 2015 and is at approximately 18.22% of capacity as of June 30, 2019.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 10 – COMMITMENTS (CONTINUED)

C. LANDFILL CLOSURE AND POST-CLOSURE

The Environmental Protection Agency established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the Corporation has been segregated into six distinct phases. Phases I, II and III were closed by the Corporation in prior years. While Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, the Corporation began landfilling in Phase V, which is near capacity and has temporarily stopped accepting waste, as of December 2015, the Corporation began accepting waste in Phase VI.

A liability for closure and post-closure care as of June 30, 2019 and 2018 of \$94,071,936 and \$91,099,055, respectively, has been recorded in the accompanying statements of net position, as summarized by Phases below.

	2019	2018
Phase I	\$ 450,904	\$ 450,904
Phases II and III	15,268,863	16,371,235
Phase IV	16,898,499	18,231,132
Phase V	42,910,328	43,457,071
Phase VI	18,007,688	12,033,067
Other	570,423	590,146
Total	94,106,705	91,133,555
Less current portion	(34,769)	(34,500)
	\$ 94,071,936	\$ 91,099,055

As of June 30, 2019, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste remaining is as follows:

	Estimated remaining costs to be recognized	Estimated capacity used	Estimated remaining years for accepting waste
Phase V	\$ 2,613,193	94.26%	6 months
Phase VI	\$ 80,828,179	18.22%	17.2 years

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 10 – COMMITMENTS (CONTINUED)

C. LANDFILL CLOSURE AND POST-CLOSURE (CONTINUED)

As of June 30, 2019 the Corporation revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a \$606,670 increase of the corresponding liability from \$108,946,578 at June 30, 2018 to \$109,552,248 at June 30, 2019 and was primarily attributable to leachate flows from the West Side pump. This pump was solely charged to the superfund site which is in its' twelfth year of the closure phase and therefore set to end in 2036, according to GAAP and was reflected so in our previous calculations. However, due to the pumps proximity to the active landfill and new information that states the permit is controlled by the State of Rhode Island and not the EPA, it seems likely that this pump will operate for the duration of the active landfill and closure period and is now reflected as so in the liability calculation.

As more fully described in Note 9, *Site Lease and Landfill Gas Delivery and Related Agreements*, the Corporation entered into a series of agreements in November 2008 granting a third party certain rights in order to construct, develop and operate a landfill gas-fired electric generation facility at the central landfill. Construction of the new gas to energy facility began in November 2010 and was completed during fiscal year 2013. Once the facility became operational the responsibility for all costs to operate and maintain the gas collection system, including replacement items, expansion of or capital improvements to the gas system transfers to the third party owner. Costs for operation and maintenance of the gas collection system remain the responsibility of the third party owner until it is incapable of generating electric energy from the landfill gas on an economic basis. The Corporation utilized gas flow projections generated by an outside engineering firm to estimate the approximate number of years the new facility could continue to generate electricity on an economic basis. This projection is reviewed on an annual basis and updated based upon new information.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets in the accompanying statements of net position as of June 30, 2019 and 2018 is \$63,864,435 and \$55,447,115, respectively, placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV, V and VI. The Corporation plans to make additional trust fund contributions each year to enable it to satisfy these future costs.

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 10 – COMMITMENTS (CONTINUED)

D. POLLUTION REMEDIATION OBLIGATIONS

Changes in the pollution remediation obligations for the years ended June 30, 2019 and 2018 are as follows:

Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Current Portion
<u>\$ 18,403,169</u>	<u>\$ --</u>	<u>\$ 2,387,203</u>	<u>\$ 16,015,966</u>	<u>\$ 873,495</u>
Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
<u>\$ 22,177,638</u>	<u>\$ --</u>	<u>\$ 3,774,469</u>	<u>\$ 18,403,169</u>	<u>\$ 935,840</u>

In prior years, the EPA issued administrative orders requiring the Corporation to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, the Corporation entered into a Consent Decree with the EPA concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The balance of the trust fund totaled \$46,033,687 and \$43,591,499 as of June 30, 2019 and 2018, respectively.

In 2004, the Corporation began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The Corporation has recorded a liability for future remediation costs of approximately \$16,015,966 and \$18,403,169 as of June 30, 2019 and 2018, respectively.

Other pollution remediation obligations:

The Corporation is the owner of several properties adjacent to its landfill operations classified as land held for operations. The Corporation is obligated to remediate one of these parcels. The Corporation has recorded a liability for future remediation costs of approximately \$570,423 and \$590,146 as of June 30, 2019 and 2018, respectively, which is included in pollution and remediation obligations on the statement of net position.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 10 – COMMITMENTS (CONTINUED)

E. GAS SYSTEM COMMITMENTS

In August 2010, the Corporation entered into an agreement for the construction and operation of a sulfur treatment system for the purpose of reducing the levels of sulfur in the gas collection system. The Corporation is committed to reimburse the operator for 50% of the operator's direct, unallocated costs not to exceed \$300,000 in any one calendar year (the year over year increase shall be the lesser of the actual cost increase for said calendar year or the prior year's actual costs increased by the annual CPI adjustment factor). The current CPI adjusted amount is \$342,230. In addition, the Corporation shares in 50% of the cost of major maintenance or future capital expenditures relating to the system. Total costs including major maintenance for the year ended June 30, 2019 were \$452,575.

F. GLASS PROCESSING AGREEMENT

On October 29, 2014, the Corporation (Landlord) and a glass recycle and processor (Tenant) entered into an agreement in which the glass recycler would lease the demised premises, formally known as the C&D Facility, with existing improvements on approximately four (4) acres. This demised premises was to be used for glass recycling and processing. The lease was for a term of 5 years, with a 3 year renewal option. Annual fixed rent was \$1.00. Additionally, Tenant had a right of first refusal on approximately 7 acres of vacant land (lot 7) owned by the Corporation located on Green Earth Avenue in the Lakeside Commerce Center in Johnston, Rhode Island. The glass was to be marketed and sold by RIRRC and profits were to be divided 50% between RIRRC and the glass recycler. This lease was terminated and operations ceased in May 2018 due to adverse conditions in the glass recycling market. Glass is now processed on site and used as cover for the landfill.

NOTE 11 – SETTLEMENTS

In December 2011, the Town of Johnston initiated a civil action against the Corporation and the third-party owner/operator of the gas collection system for odor conditions existing at the Central Landfill. In April 2013, the Town and Corporation entered into a settlement agreement and release whereby the Town agreed to voluntarily dismiss the Corporation from the lawsuit in exchange for the Corporation agreeing to execute an amendment to the Host Community Agreement between the parties. The amendment requires the Corporation to 1) make a one-time lump sum payment of \$1,500,000 to the Town which was paid December 2013 and 2) make annual payments of \$107,143 to the Town for the next fourteen years. The balance outstanding at June 30, 2019 and 2018 is \$964,286 and \$1,071,429, respectively, and is included in bonds payable and notes payable on the statement of net position. See Note 7 for additional disclosure.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 11 – SETTLEMENTS (CONTINUED)

On January 27, 2016, the Town of Johnston and RIRRC reached a settlement in which the Town of Johnston would assign certain rights it obtained with a settlement agreement with Broadrock Gas Services, LLC to RIRRC. The rights the Town assigned concern the obligation of Broadrock to transfer the operations of the gas collection system to an independent third party operator and its associated enforcement rights. For the assignment of these rights, RIRRC agreed to pay the Town a \$2,000,000 installment note over 14 years, equal to \$142,857 per year. As of June 30, 2019 and 2018 the amount owed is \$1,428,571 and \$1,571,429, respectively, which is included in bonds payable and notes payable on the statement of net position. See Note 7 for additional disclosure.

On June 30, 2016, RIRRC and Broadrock Gas Services entered into a settlement with the Conservation Law Foundation (CLF) over alleged air quality and permit violations in which both RIRRC and Broadrock will each pay the CLF \$350,000 for a total settlement of \$700,000. Under this agreement \$225,000 will be towards attorney fees, \$25,000 to engage a consultant to recommend gas system improvements and \$450,000 to implement the consultant's recommendations. All liability costs have been paid as of June 30, 2019. The liability balance was \$225,000 for June 30, 2018. This amount was included in accounts payable and accrued expenses on the statement of net position as of June 30, 2018.

NOTE 12 – CONTINGENCIES, RISKS AND UNCERTAINTIES

The Corporation is involved in various routine litigation and is subject to claims incident to its business. While the ultimate outcome of these legal proceedings cannot be predicted with certainty, management believes that their resolution will not have a material adverse effect on the Corporation's financial statements.

Various aspects of the contractual amounts due to and from the third party operator/owner of the gas collection system are being contested and litigated. Management has made the appropriate estimates of probable settlements wherever possible and has recorded these in the financial statements.

CONCENTRATIONS

Approximately 25.9% and 19.0% of the Corporation's fiscal year 2019 and 2018, respectively, revenues were provided by a single privately-owned customer. In June 2018, this single privately-owned customer sold its operations to a national waste management company. Since the national waste management company has disposal capacity in other States, RIRRC believes a portion of the solid waste that previously was brought to RIRRC will eventually be hauled out of State. However, at this point no estimates are available.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 13 – RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, errors and omissions, workers' compensation and environmental pollution claims for which the Corporation carries commercial insurance. No claims have exceeded coverage during the past three years.

NOTE 14 – DEFINED CONTRIBUTION PLAN

The Corporation sponsors a single-employer defined contribution money purchase pension plan covering all employees of the Corporation. Employees are eligible to participate on the date of their employment. Participants are automatically enrolled in the plan with a mandatory 5% salary deferral amount.

Effective April 1, 2009, the Plan was amended and restated with the adoption of a prototype plan document, and the name was changed to the Rhode Island Resource Recovery Corporation 401(K) Profit Sharing Plan. The amended and restated Plan is a single-employer defined contribution plan covering all employees of the Corporation, and did not require mandatory participant contributions.

On August 2, 2015, the plan was further restated from a 401(K) profit sharing plan to a 401(a) profit sharing plan. A Voluntary Correction Plan (VCP) and individual determination letter was submitted to the IRS on August 31, 2015 to address certain deficiencies in the original 401(K) plan. On January 15, 2016, the Internal Revenue Service accepted the Voluntary Correction Plan as submitted. A favorable determination letter was received on September 27, 2016.

RIRRC pays this contribution into the 401(a) plan for the participants. Because the law treats this contribution for income tax purposes as an employer contribution, it will be contributed to the 401(a) Plan on the participants' behalf on a pre-tax basis, 'picked up'. The participants will not be able to make pre-tax elective deferral contributions to the Plan on or after August 2, 2015. Participants are immediately 100% vested in their contributions to the plan and earnings thereon. The plan provides that the Corporation contribute the sum of (1) 8.56% of the participant's total annual compensation, plus (2) the FICA tax rate percentage (7.65%) up to the Social Security Taxable Wage Base of \$132,900 for calendar year 2019 and \$128,400 for 2018. The employer FICA portion of contributions is made in lieu of participant social security administration withholdings.

The Corporation contributed approximately \$1,632,500 and \$1,461,500 to the Plan during the years ended June 30, 2019 and 2018, respectively.

As of June 30, 2019 and 2018, there were no securities of the Corporation or loans to the Corporation included in the Plan's assets.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

PLAN DESCRIPTION

The Corporation administers an employee Retiree Healthcare Plan (the “Plan”), which is a single-employer defined benefit healthcare plan. Benefit provisions are established by the governing body of the Corporation and may be amended at any time. The Plan does not issue a publicly available financial report and is not included in the financial statements of another entity. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

BENEFITS PROVIDED

Postretirement benefits include medical and dental coverage. No life insurance is provided. Coverage under this plan is continued for those employees who retire under the pension plan from active employment at their normal or early retirement. Coverage is one covered month of full premium for each year of service the participant accumulates up to a maximum of 12 months coverage. As an elective the participant may choose half premium coverage wherein the Company and the participant each pay half the premium due each month in return for receiving two months coverage for each year of service to a maximum of 24 months.

The Plan does not issue a publicly available financial report and is not included in the financial statements of another entity.

EMPLOYEES COVERED BY BENEFIT TERMS AT JUNE 30, 2019

Participant Counts	
Active Participants	54
Retirement Participants	<u>1</u>
Total	55

Employees hired after December 31, 2008, are ineligible for benefits under the plan.

TOTAL OPEB LIABILITY

The total OPEB Liability of \$700,463 as of the measurement date of June 30, 2019 was determined using procedures to roll forward amounts from the most recent valuation of July 1, 2017.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

ACTUARIAL ASSUMPTIONS AND OTHER INPUTS

Economic Assumptions

Discount Rate	3.87% as of July 1, 2018 3.51% as of June 30, 2019
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Since the plan is unfunded (i.e., the plan is on a pay-as-you go basis), as prescribed by GASB No. 75, the discount rate is based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date. The Company elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.

Demographic Assumptions

Mortality	Mortality rates based on RP-2014 Employee and Healthy Annuitant mortality tables for males and females without collar or amount adjustments, using RP-2014 rates published in the final RP-2014 report adjusted to the 2006 base year by factoring out the projection under Scale MP-2014 as described in Section 8.3 of the Society of Actuaries' Retirement Plans Experience Committee ("RPEC") Response to Comments on RP-2014 Mortality Tables Exposure Draft, with generational mortality improvements using Scale MP-2017
Turnover	Rates varying by age and service
Disability	None assumed
Retirement	Earlier of (i) age 62 and 5 years of service and (ii) age 65

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Coverage Level	Based on coverage level during active employment
Participation Rate	80% of employees covered during active employment who retire prior to age 65 are assumed to elect coverage. No employees retiring after age 65 will elect coverage.
Annual Claim Costs	Medical: \$11,015 for single and \$23,132 for married Dental: \$500 for single and \$999 for married

Healthcare Cost Trend Rates	<u>Year</u>	<u>Medical</u>	<u>Dental</u>
	1	8%	4%
	2	7%	4%
	3	6%	4%
	4+	5%	4%

CHANGES IN THE TOTAL OPEB LIABILITY

This section provides a reconciliation of the Total OPEB Liability from June 30, 2018 to June 30, 2019.

Balance at 6/30/2018	<u>\$ 646,009</u>
Service cost	25,862
Interest	25,822
Change of benefit terms	--
Difference between expected and actual experience	--
Changes in assumptions or other inputs	12,029
Benefit payments	<u>(9,259)</u>
Net Changes	<u>54,454</u>
Balance at 6/30/2019	<u><u>\$ 700,463</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.87% in 2018 to 3.51% in 2019.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

ASSUMPTION SENSITIVITY

This section provides information about the sensitivity of the Total OPEB Liability to certain assumptions made in the actuarial valuation. The discount rate and benefit cost trend rate are the most significant assumptions used in this valuation. The table below shows the effect of increasing and decreasing those assumptions by 100 basis points above/below their projected levels in all future years.

Total OPEB Liability			
	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
Discount Rate	\$ 735,629	\$ 700,463	\$ 665,640
	1% Decrease 4.00%	Current Benefit Cost Trend Rate 5.00%	1% Increase 6.00%
Benefit Cost Trend Rate	\$ 630,966	\$ 700,463	\$ 780,545

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

OPEB EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

Deferred Outflow of Resources of \$12,029 relates to a change in the discount rate from 3.87% in 2018 to 3.51% in 2019. The Deferred Outflow will be recognized in expense as follows along with prior year changes:

Fiscal Year Established	Initial Amount	Deferred Outflows	Deferred Inflows	Initial Years	Remaining Years	Recognized in June 30, 2019
Fiscal 2017	--	--	--	--	--	--
Fiscal 2018	(10,568)	--	(8,814)	12.05	10.05	(877)
Fiscal 2019	10,209	<u>11,030</u>	<u>--</u>	12.04	11.04	<u>999</u>
Total		11,030	(8,814)			122

Year Ended June 30:

Fiscal 2020	\$ 122
Fiscal 2021	122
Fiscal 2022	122
Fiscal 2023	122
Fiscal 2024	122
Thereafter	<u>1,606</u>
	<u>\$ 2,216</u>

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated the activity of the Rhode Island Resource Recovery Corporation occurring subsequent to June 30, 2019 and has concluded that no events have occurred that would require recognition in the financial statements or disclosures in the notes to the financial statements.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF CHANGES IN NET OPEB LIABILITY
RETIREE HEALTH CARE PLAN

LAST TWO FISCAL YEARS

	Year Ended June 30, 2019	Year Ended June 30, 2018
A. Total OPEB liability		
1. Service Cost	\$ 25,862	\$ 26,039
2. Interest on Liability and Service Cost	25,822	22,910
3. Change in Plan Provisions	--	--
4. Experience (Gain) and Loss	--	--
5. Changes of Assumptions	12,029	(10,568)
6. Benefit Payments	(9,259)	(12,538)
7. Interest on Benefit Payments	<u>--</u>	<u>--</u>
8. Net change in total OPEB liability	54,454	25,843
9. Total OPEB liability – beginning	<u>646,009</u>	<u>620,166</u>
10. Total OPEB liability – ending (a)	<u>\$ 700,463</u>	<u>\$ 646,009</u>
B. Plan fiduciary net position		
1. Contributions – employer	\$ --	\$ --
2. Contributions – employee	--	--
3. Other Payments	--	--
4. Benefit Payments	--	--
5. Expenses	--	--
6. Investment Income	<u>--</u>	<u>--</u>
7. Net change in plan fiduciary net position	--	--
8. Plan fiduciary net position – beginning	<u>--</u>	<u>--</u>
9. Plan fiduciary net position – ending (b)	<u>\$ --</u>	<u>\$ --</u>
C. Net OPEB liability - ending (a) - (b)	<u>\$ 700,463</u>	<u>\$ 646,009</u>
D. Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%
E. Covered employee payroll	<u>\$ 4,429,640</u>	<u>\$ 4,429,640</u>
F. Net OPEB liability as a percentage of covered payroll	15.81%	14.58%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10 year trend is compiled, information is presented for those years available.

Changes in assumptions and other inputs reflect a change in the discount rate from 3.87% in 2018 to 3.51% in 2019.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF INVESTMENTS AND DEPOSITS

JUNE 30, 2019

	Carrying Value	Demand Deposits	Other
Cash accounts	\$ 7,987,874	\$ 7,987,874	\$ --
Cash equivalents	43,322,250	2,565,278	40,756,972
Investments	<u>109,898,122</u>	<u>--</u>	<u>109,898,122</u>
	<u>\$ 161,208,246</u>	<u>\$ 10,553,152</u>	<u>\$ 150,655,094</u>
Investments and deposits as presented on the Statement of Net Position at June 30, 2019			
Cash and cash equivalents	\$ 48,744,846		
Cash and cash equivalents - restricted, noncurrent assets	2,565,278		
Held in trust - restricted, noncurrent assets	<u>109,898,122</u>		
	<u>\$ 161,208,246</u>		

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF INVESTMENTS AND DEPOSITS (CONTINUED)

JUNE 30, 2018

SCHEDULE A

	Carrying Value	Demand Deposits	Other
Cash accounts	\$ 4,420,064	\$ 4,420,064	\$ --
Cash equivalents	40,005,317	2,511,866	37,493,451
Investments	<u>99,038,614</u>	<u>--</u>	<u>99,038,614</u>
	<u>\$ 143,463,995</u>	<u>\$ 6,931,930</u>	<u>\$ 136,532,065</u>
Investments and deposits as presented on the Statement of Net Position at June 30, 2017			
Cash and cash equivalents	\$ 41,913,515		
Cash and cash equivalents - restricted, noncurrent assets	2,511,866		
Held in trust - restricted, noncurrent assets	<u>99,038,614</u>		
	<u>\$ 143,463,995</u>		

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF NET POSITION

JUNE 30, 2019

SCHEDULE B

Assets

Current Assets

Cash and cash equivalents	\$ 48,744,846
Receivables (net)	7,654,700
Inventories	2,438,522
Other assets	622,560

Total Current Assets	59,460,628
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Noncurrent Assets

Restricted Assets:	
Cash and cash equivalents	2,565,278
Investments	109,898,122
Land held for sale	2,830,649
Capital Assets - nondepreciable	13,380,993
Capital Assets - depreciable (net)	73,147,192
Other Assets, Net of Amortization	609,400

Total Noncurrent Assets	202,431,634
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Total Assets	261,892,262
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Deferred outflows of resources	11,030
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Liabilities

Current Liabilities

Accounts payable	7,826,426
Other liabilities	908,264
Current portion of long-term debt	4,406,846

Total Current Liabilities	13,141,536
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Noncurrent Liabilities

Net OPEB Liability	700,463
Other Liabilities	109,214,407
Notes Payable	2,142,877
Bonds Payable	13,184,629

Total Noncurrent Liabilities	125,242,376
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Total Liabilities	138,383,912
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Deferred inflows of resources	8,814
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Net Position

Net invested in capital assets	75,446,037
Restricted	2,565,278
Unrestricted	45,499,251

Total Net Position	\$ 123,510,566
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RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

STATEMENT OF CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE C

Expenses	\$ 48,594,129
Program Revenues	
Charges for services	<u>72,716,734</u>
Total Program Revenues	<u>72,716,734</u>
Net (Expenses) Revenues	<u>24,122,605</u>
General Revenues	
Interest and investment earnings	6,387,209
Miscellaneous revenue	<u>910,812</u>
Total General Revenue	<u>7,298,021</u>
Change in Net Postion	<u>31,420,626</u>
Total Net Position - Beginning	<u>92,089,940</u>
Total Net Postion - Ending	<u><u>\$ 123,510,566</u></u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

**SCHEDULE OF DEBT SERVICE TO MATURITY, LONG-TERM DEBT –
BONDS ONLY**

FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE D

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 4,156,846	\$ 439,008
2021	4,273,616	322,237
2022	4,393,667	202,187
2023	<u>4,517,346</u>	<u>78,507</u>
	<u>\$ 17,341,475</u>	<u>\$ 1,041,939</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

SCHEDULE OF CHANGES IN LONG-TERM DEBT

FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE E

	Beginning Balance	Additions	Reductions	Balance	Amounts One Year	Amounts Due Thereafter
Bonds payable	\$ 21,384,740	\$ --	\$4,043,265	\$ 17,341,475	\$ 4,156,846	\$ 13,184,629
Bonds payable	<u>21,384,740</u>	<u>--</u>	<u>4,043,265</u>	<u>17,341,475</u>	<u>4,156,846</u>	<u>13,184,629</u>
Note Payable	2,642,877	--	250,000	2,392,877	250,000	2,142,877
Net OPEB liability	646,009	54,454	--	700,463	--	700,463
Compensated absences	<u>488,696</u>	<u>9,202</u>	<u>--</u>	<u>497,898</u>	<u>497,898</u>	<u>--</u>
	<u>3,777,582</u>	<u>63,656</u>	<u>250,000</u>	<u>3,591,238</u>	<u>747,898</u>	<u>2,843,340</u>
Reported as other liabilities:						
Pollution remediation	18,403,169	--	2,387,203	16,015,966	873,495	15,142,471
Landfill closure and post-closure care	<u>91,133,555</u>	<u>2,973,150</u>	<u>--</u>	<u>94,106,705</u>	<u>34,769</u>	<u>94,071,936</u>
Other liabilities	<u>109,536,724</u>	<u>2,973,150</u>	<u>2,387,203</u>	<u>110,122,671</u>	<u>908,264</u>	<u>109,214,407</u>
	<u>\$ 134,699,046</u>	<u>\$ 3,036,806</u>	<u>\$6,680,468</u>	<u>\$131,055,384</u>	<u>\$ 5,813,008</u>	<u>\$ 125,242,376</u>

**RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE F

Date paid	Payee	Purpose	Amount
8/31/2018	Katherine Hypolite	SWANA Training/ Waste Con	\$ 1,552
10/18/2018	Krystal Noiseux	NAAEE Conference	559
12/31/2018	Jared Rhodes	RI Food Policy Council, Gov's Plastic Task Force	281
1/31/2019	Joseph P Reposa	BlueSphere Meeting	905
2/27/2019	Citizens Bank	OSHA Training	360
2/28/2019	Joseph Brennan	Swanapalooza	969
2/28/2019	Brian Card	EBC Conference	691
2/28/2019	Kristen Littlefield	Swanapalooza	302
4/30/2019	Krystal Noiseux	Mileage, Parking and Tolls for Educational Presentations	201
5/30/2019	Joseph P Reposa	Waste Expo, Recycle It Right Relaunch	989
5/30/2019	Joseph P Reposa	Waste Expo, Recycle It Right Relaunch, Fiberight Visit	1,706
5/31/2019	Citizens Bank	VEEAM Technical Training and Conference	342
6/24/2019	Krystal Noiseux	NAAEE Conference, Flight	264
6/30/2019	Citizens Bank	VEEAM Technical Training and Conference	1,368
6/30/2019	Amanda Cornell	Mileage	309
			<u>10,798</u>
Summary of other expenses under \$200 each:			
		Mileage	4,706
		Miscellaneous (Parking, Tolls, Etc.)	209
			<u>4,915</u>
		Total	<u>\$ 15,713</u>

**RHODE ISLAND RESOURCE RECOVERY CORPORATION
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE F

Date paid	Payee	Purpose	Amount
8/9/2017	Carol Bjartmarz	Mileage Reimbursement	\$ 446
8/16/2017	David Bordieri	NYC Food Waste Fair	716
11/8/2017	Chris Jocelyn	Mileage Reimbursement	231
11/8/2017	Chris Jocelyn	Strategic HR Conference Hotel, Meals	600
11/16/2017	Jim Donovan	VMWARE Technical Course	1,793
11/16/2017	Jared Rhodes	EBC Solid Waste Management Wrap & Roll Seminar	217
12/28/2017	Citizen's Bank	Homewood Suite & Mohegan Sun Hotel Reservation	813
2/7/2018	Kristen Littlefield	SWANA Transfer Management Training	805
3/29/2018	Joe Reposa	Mileage Reimbursement	714
3/29/2018	Joe Reposa	Disposal Technology Preview, Flight	358
4/4/2018	Chris Jocelyn	Strategic HR Conference, Hotel	247
5/3/2018	Citizen's Bank	Mixed Waste Processing Facility Airfare & Parking	591
5/3/2018	Frank Delellis	EPG Service School	671
6/7/2018	Jose Gonzalez	Mileage Reimbursement	306
6/7/2018	Brian Card	FNYSWA Conference	633
7/12/2018	Krystal Noiseux	NAAEE Research Symposium & Conference	<u>569</u>
			9,710
Summary of other expenses under \$200 each:			
		Mileage	3,845
		Miscellaneous (Parking, Tolls, Etc.)	<u>777</u>
			<u>4,622</u>
		Total	<u>\$ 14,332</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board Members
Rhode Island Resource Recovery Corporation

We have audited, 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, the financial statements of the Rhode Island Resource Recovery Corporation (a component unit of the State of Rhode Island), as of and for the year ended June 30, 2019 and the related notes to the financial statements, and have issued our report thereon dated September 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rhode Island Resource Recovery Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Rhode Island Resource Recovery Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Resource Recovery Corporation's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rhode Island Resource Recovery Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Providence, Rhode Island
September 30, 2019