



## Table of Contents

Innovation in Waste Management	4
Renewable Energy from Waste	5
Capital Projects — Transfer Station Complex	6
Facility and Program Performance	7 – 8
Overview of Managed Waste	9
Select Financial Data	10
Independent Auditor's Report	11
Management's Discussion and Analysis	12 – 13
Comparative Statements of Net Assets	14 – 15
Statements of Revenues, Expenses, and Changes in Net Assets	16
Statements of Cash Flow	17 – 18
Notes to Financial Statements	19 – 30
Independent Auditors' Report on Supplementary Information	31
Schedules of Condensed Revenues and Expenses	32
Board of Directors & Senior Management Staff	34-35



### Our Mission

The Lancaster County Solid Waste Management Authority's mission is to manage solid waste and recyclable materials in an environmentally safe, reliable and efficient manner.

## Dear Friend of the Authority

We are pleased to report that in 2006 the Lancaster County Solid Waste Management Authority successfully carried out its primary responsibility of managing solid waste generated in Lancaster County in an environmentally sound, efficient and reliable manner. While we were successful in our core mission, we are also proud to report that we had several specific accomplishments that clearly exemplified our Authority's innovation and leadership within our industry on a national basis.

In October, our Authority became the first public environmental organization to join the Chicago Climate Exchange (CCX). By joining the CCX, we made a legally binding decision to lower our Greenhouse Gas (GHG) output by 6% by 2010, using our average emissions from 1998 through 2001 as a baseline. Earlier in the year, our Landfill Gas (LFG) project with partner PPL Energy Services LLP began capturing and burning methane gas to produce renewable electric energy. Because our Authority voluntarily installed the LFG collection system, we are able to sell carbon emission credits on the CCX, the first public waste agency to ever do so. We expect to earn over \$250,000 each year from the sale of these emission credits to others. We were also pleased when this project was chosen by the US EPA as one of their "Projects of the Year." Our non-recycled waste is now responsible for renewable energy generation at *both* our waste-to-energy facility and landfill. In fact, our waste is now generating enough electricity to power almost 20% of all the homes in Lancaster County. As renewable energy and greenhouse gas issues continue taking center stage nationally, we are very pleased to be at the forefront of addressing these issues in a meaningful way, benefiting our local community.

We have also made substantial progress in the construction of our new transfer station complex. In the spring of 2006, we opened Phase I of the project. This phase included a new maintenance facility and also our innovative new drive-thru Household Hazardous Facility. Thus far, the community response on both the design and functionality of our efforts has been overwhelmingly positive. The entire complex is scheduled for completion at the end of 2007. Once this facility becomes operational, we will gain numerous operation efficiencies which will lower our cost of transferring waste to our other locations.

You will note from our audited financials that we continue to remain strong financially, as we have maintained a healthy level in our unrestricted reserves while continuing to make the substantial capital investments it takes to provide both adequate equipment and proper facilities to manage the varied waste streams that we receive.

Although we are pleased with our progress achieved during 2006, we have many substantive issues and challenges in front of us. We are confident that if we remain focused on our mission and continue to implement sound business and environmental practices, we will succeed in achieving our goals and overcoming challenges as they arise.

We appreciate all the support and cooperation we have received from the Lancaster County community.

Sincerely,



Lester O. Houck, Chairman of the Board



James D. Warner, Executive Director

## Innovation in Waste Management

On October 16, 2006, Lancaster County Solid Waste Management Authority (LCSWMA) joined the ranks of major global businesses and organizations such as Dupont, Ford Motor Company, IBM, Motorola, Rolls Royce and Waste management by becoming a member of the Chicago Climate Exchange (CCX).

As an innovator in the public environmental field, LCSWMA has once again demonstrated its leadership by committing to meet annual greenhouse gas reduction targets. By exceeding the reduction targets, LCSWMA is able to sell surplus carbon emission allowances through CCX.

Because LCSWMA has voluntarily installed its landfill gas (LFG) collection system, the project was qualified as a GHG offset project by the CCX. This project registration has enabled LCSWMA to sell carbon emission allowances on the CCX. During the 4th quarter of 2006, LCSWMA sold 25,700 metric tons of CO<sub>2</sub> emission allowances on the CCX, resulting in revenue of \$104,000.

During the first 10 months of operations in 2006, 3,440 metric tons of methane gas were recovered through LCSWMA's gas collection and conveyance system at the active Frey Farm Landfill and closed Creswell Landfill. LCSWMA generated \$33,335 in revenue from the sale of 133,339 million BTU's of methane gas to PPL Energy Services, the owner of the LFG plant.

In 2006, PPL Energy Services generated 12,814 megawatt hours of electricity from the combustion of the LFG.



***The Authority anticipates earning \$250,000 a year from the sale of CO<sub>2</sub> emission offset credits generated from the landfill gas project.***

***\$104,000 was earned from October through December 2006.***



Photo courtesy of Grant Heilman

EPA Landfill Methane Outreach Program Project of the Year



***Our waste generates enough renewable energy to power 1 in 6 Lancaster County homes for a year.***

***227,003 megawatts of electricity were produced in 2006.***

## Renewable Energy . . . From Waste

The Resource Recovery Facility generated 214,189 megawatt hours of renewable energy by using waste as a fuel. The combustion of waste continues to conserve valuable landfill space by reducing the volume of the waste by 90%. The resulting ash is used as daily cover at the Frey Farm Landfill.

One of the outstanding features of the facility is the use of secondary wastewater treatment effluent from the Elizabethtown Borough Wastewater Treatment Plant for all of its process water. All wastewater generated on-site is treated for reuse in the waste management process. Since operations began at the facility in 1991, the zero-discharge facility has diverted about 2,600 tons of wastewater solids from reaching the Susquehanna River.

We are also pleased to report that on September 21, 2006, LCSWMA received the Solid Waste Association of North America's (SWANA) 2006 Waste-to-Energy Gold Excellence Award.

Another feature of the facility includes the recovery of ferrous metal for recycling from the combustion ash. In 2006, 6,687 tons of ferrous metal was recovered.

As the keystone of LCSWMA's integrated solid waste management system, the Waste-to-Energy facility is generating renewable energy from waste while reducing greenhouse gases by:

- avoiding carbon dioxide emissions from fossil fuel-based electrical generation
- avoiding potential methane emissions from the landfill,
- recovering ferrous metals for recycling



## Capital Projects — Transfer Station Complex

The Authority's Capital Program included renovations to the Transfer Station Complex located at 1299 Harrisburg Pike in Lancaster. These improvements will increase the facility's capacity from 1,600 tons per day to 2,200 tons per day. This \$28 million project is being funded with cash on hand and a \$10 million qualified bank loan with a term of 10 years and a fixed rate of 3.15%.

In early 2006, Phase I of the Transfer Station Complex renovations was completed with a construction cost of \$4.74 million. The maintenance building and fuel island began servicing the Authority's equipment in February. Customers began using the new scales and scale house on March 27, 2006. The following day, the new drive-thru Household Hazardous Waste Facility opened to receive materials from customers.

Work continued into Phase II of the project with the demolition of the old fuel island, scale house and scales, maintenance and household hazardous waste facilities and the old transfer station lunchroom.

Construction of the underground stormwater retention culvert, the new transfer station and renovations to the office façade began and continued through the end of 2006 with an anticipated completion date in early summer of 2007.

Phase III of the Transfer Station Complex renovations will entail the demolition of the old transfer station and the construction of a new small-vehicle drop-off facility. Completion of the entire project is scheduled to occur in late 2007.



Shell of the new Transfer Station building beside the office



Drive-thru Household Hazardous Waste Facility

Artistic rendering of streetscape view of completed Transfer Station Complex



OFFICE    TRANSFER STATION    SMALL-VEHICLE DROP-OFF

HOUSEHOLD  
HAZARDOUS WASTE

MAINTENANCE  
FACILITY

## Facility and Program Performance

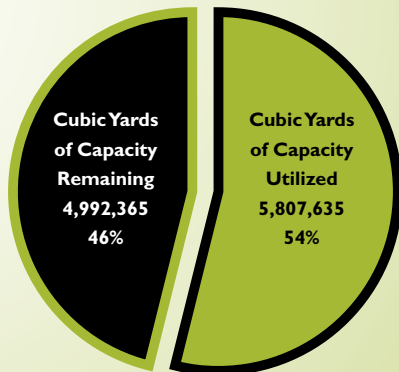
The **Resource Recovery Facility** processed 353,083 tons of waste in 2006, generating 214,189 megawatts of renewable energy, which produced \$11.53 million in revenue. The facility also had an excellent environmental record, with 99.6% emissions compliance and no violations in monthly inspections by the Pennsylvania Department of Environmental Protection (PaDEP).

Operating Data (RRF) — 2006	Total
Tons Processed	353,083
Electricity Produced (megawatt hours)	214,189
Electric Revenue (millions)	\$11.53
Ferrous Materials Recovered (tons)	6,687
Ash Generated (tons)	83,492
Number of PaDEP Inspections/Violations	11 / 0
Boiler Operating Time	88.2%
Emissions Compliance	99.6%

The **Frey Farm Landfill** received 304,961 total tons of material, of which 200,467 tons were disposed and the remaining 104,494 tons were used for daily cover and alternate daily cover. The landfill had another successful year with 100% compliance with its permit from PaDEP.

Operating Data (FFL) — 2006	Total
Tons Received	304,961
Tons Disposed	200,467
RRF Ash Used for Daily Cover (tons)	83,492
Waste Used as Alternative Daily Cover (tons)	21,002
Landfill Volume Used (cubic yards)	366,069
% of Total Volume Available	45.6%
In Place Density of Waste (lbs. per cubic yards)	1,666
Number of PaDEP Inspections/Violations	11 / 0

FREY FARM LANDFILL  
VOLUME UTILIZATION / PROJECTION



FULL IN 2020 | BEGAN IN 1989

The first year of operations for the renewable energy **Landfill Gas-to-Energy** project resulted in 3,440 metric tons of methane gas being destroyed. An event was held on May 11, 2006, to dedicate the facility and recognize those parties involved in its success.

Operating Data (LFGTE) — 2006	Total
BTU's of Methane Gas Sold to PPL (millions)	133,339
Gas Sale Revenue (thousands)	\$33.3
Methane Content of Landfill Gas	43.1%
PPL Engines Total Operating Time (hours)	10,367
Electricity Delivered to PJM Grid (megawatt hrs.)	12,814
Methane Converted to Electricity (metric tons)	3,440

## Facility and Program Performance (continued)

The **Transfer Station** received 246,274 tons of waste, which was delivered in 70,527 vehicles. Authority transfer trailers made 14,027 trips to deliver waste to the Resource Recovery Facility and Frey Farm Landfill. The consolidation of waste at the Transfer Station resulted in an 80% vehicle trip reduction to the Authority's disposal facilities.

Operating Data (TS) — 2006	Total
Tons Received	246,274
Transactions (loads received)	70,527
Loads Transferred	14,027
Average Size Load Received (tons)	3.49
Traffic Reduction Ratio	5:1
Traffic Reduction Benefit to Frey Farm Landfill (vehicles)	10,544
Traffic Reduction Benefit to Resource Recovery Facility (vehicles)	44,271

The **Household Hazardous Waste Facility** received 696,853 pounds of materials in 2006. This is a 23% increase in the weight of materials delivered by residents. The average pounds of household hazardous waste delivered per customer visit increased by 15%, with an average increase of 25.5 pounds per customer visit. The new drive-thru facility opened in March 2006. The number of customer visits to the new facility was 12,550, which is an increase of 118% over the previous year.

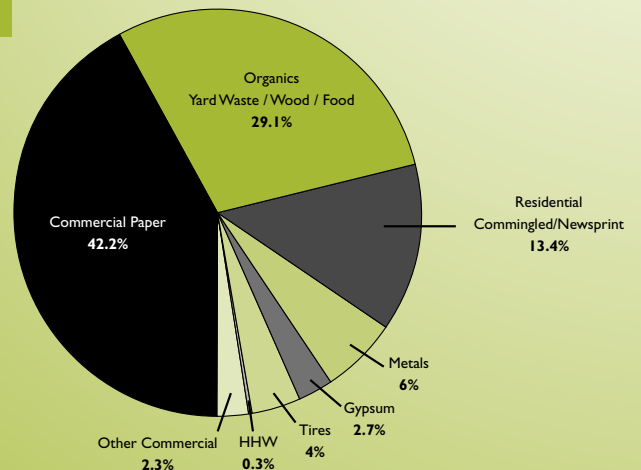
Operating Data (HHW) — 2006	Total Pounds
All Materials Received	696,853
Batteries	82,222
Computers	231,303
Flammable Liquids	78,161
Fluorescent Bulbs	11,977
Motor Oil	98,287
Other (pesticides, antifreeze, paint, etc.)	194,903
Average Pounds Per Customer Visit	55.5

In 2006, **Lancaster County Recycling Programs** achieved a 37% recovery rate, higher than the 35% Commonwealth goal for recycling of Municipal Solid Waste. LCSWMA staff provided technical support, guidance and education to municipal solid waste and recycling program coordinators, businesses and institutions. There are 43 municipal solid waste and recycling curbside collection programs and one drop-off recycling collection program, which serve 87% of Lancaster County's population.

Countywide Data (Recycling) — 2006	Total Tons
All Materials Recycled	186,400
Commercial Paper	78,590
Organics—Yard Waste, Wood, Food	54,250
Residential Commingled/Newsprint	25,010
Metals	11,230
Tires	7,500
Other (construction/demolition materials, HHW, other commercial, etc.)	9,820

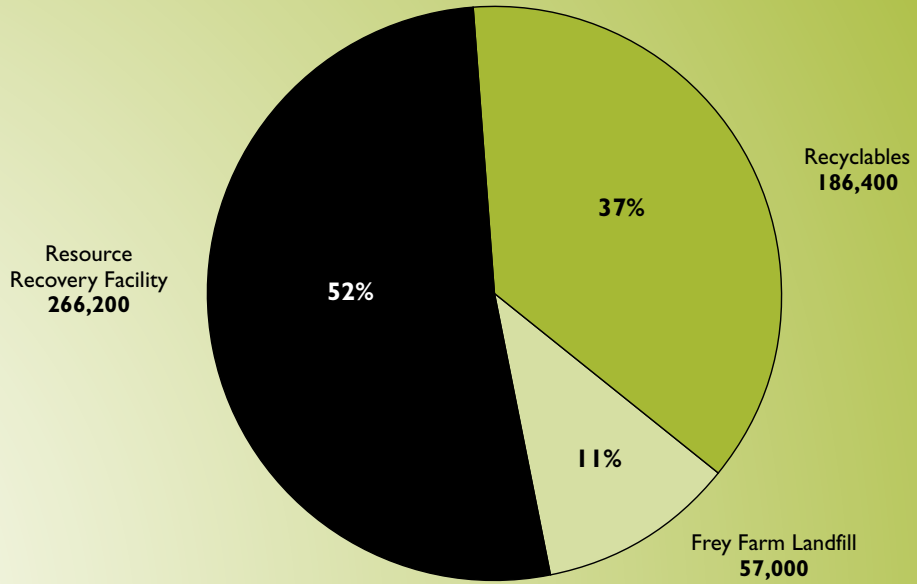
2006 LANCASTER COUNTY RECYCLING  
186,400 TONS

37% of Municipal Solid Waste collected was recycled

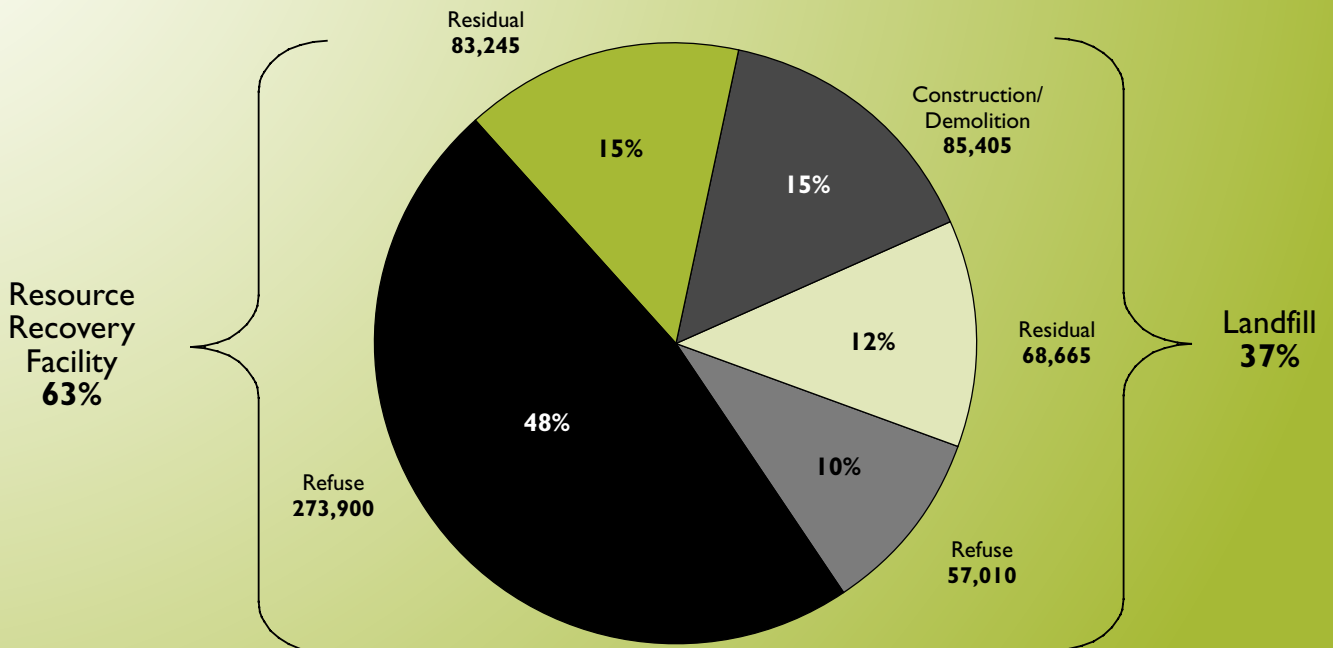


# Overview of Managed Waste

2006 LANCASTER COUNTY  
ANNUAL MUNICIPAL SOLID WASTE AND RECYCLING REPORT  
509,600 TONS

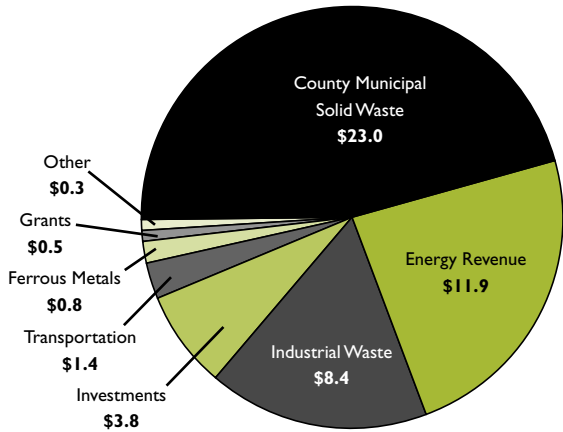


2006 SYSTEMWIDE: ALL WASTE TYPES  
568,225 TONS

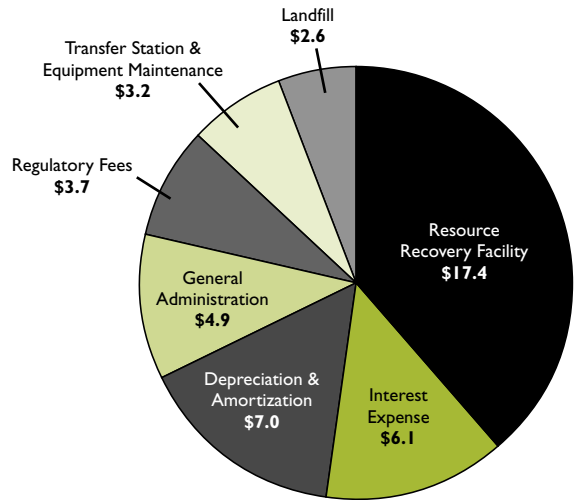


## SELECT FINANCIAL DATA

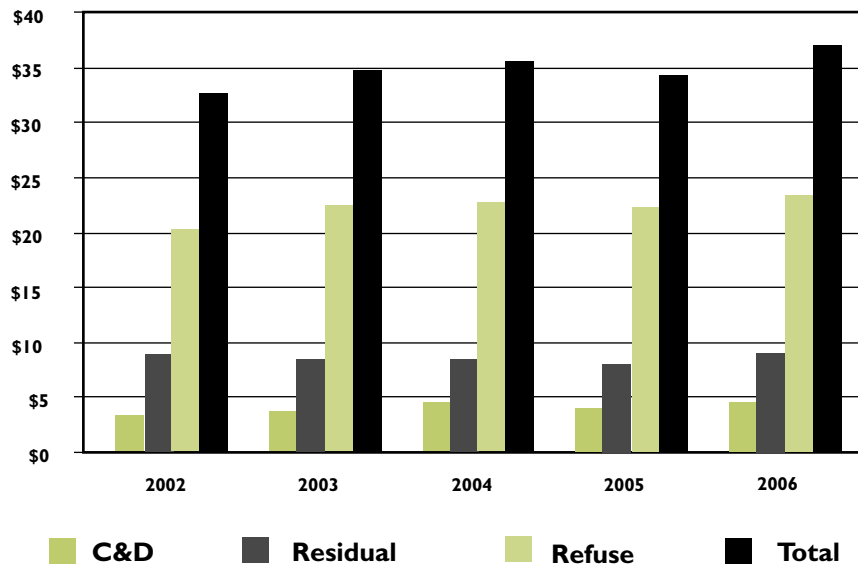
2006 REVENUE: \$50.1  
(in millions)



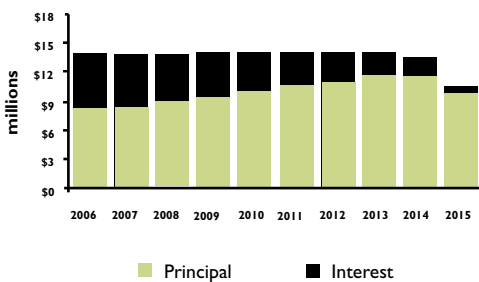
2006 EXPENSES: \$44.9  
(in millions)



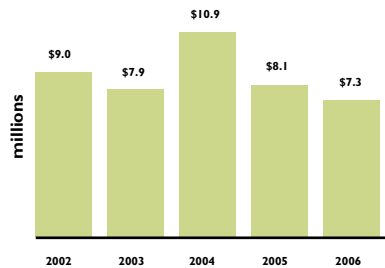
GROSS TIPPING REVENUE  
(in millions)



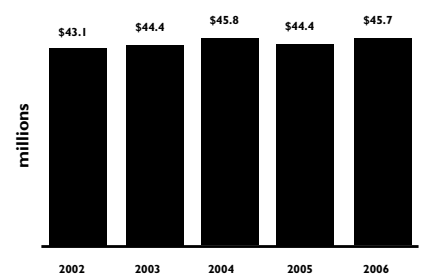
DEBT SERVICE SCHEDULE



NET OPERATING INCOME



TOTAL OPERATING REVENUES



TROUT, EBERSOLE & GROFF, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1705 OREGON PIKE  
LANCASTER, PENNSYLVANIA 17601  
(717) 569-2900  
TOLL FREE | (800) 448-1384  
FAX (717) 569-0141

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
**Lancaster County Solid Waste  
Management Authority**  
Lancaster, Pennsylvania

We have audited the accompanying comparative statements of net assets of **Lancaster County Solid Waste Management Authority** as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Lancaster County Solid Waste Management Authority** as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 12 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Trout, Ebersole & Groff, LLP*

February 5, 2007  
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants



## LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY MANAGEMENT DISCUSSION AND ANALYSIS

Management of the **Lancaster County Solid Waste Management Authority** (the Authority), issues the following narrative and analysis to assist the reader in understanding financial activities of the Authority for the fiscal year ended December 31, 2006.

### Overview of the Financial Statements

Although the Authority is a governmental entity the Authority engages primarily in business-type activities. The Authority's basic financial statements consist of two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

*Enterprise fund financial statements.* The enterprise fund statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenue, expenses and changes in net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. The basic enterprise fund financial statements can be found on pages 14 through 18 of this report.

*Notes to financial statements.* The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 20 through 30 of this report.

### FINANCIAL HIGHLIGHTS

The assets of the Authority exceeded its liabilities at the close of the 2006 fiscal year by \$96,367,079 (net assets). Of this amount, \$41,704,146 is invested in capital assets and \$8,532,452 is restricted for landfill closure and post-closure monitoring costs. Unrestricted net assets total \$46,130,481 of which \$44,162,871 has been set aside in reserve funds for capital, construction, and revenue needs.

The Authority's total net assets increased by \$5,231,398. This is primarily due to an increase in net tipping fee revenue and investment earnings.

The Authority's total liabilities decreased by \$3,487,703 during the current fiscal year. This is due to paying down the principal on the debt outstanding.

### FINANCIAL ANALYSIS

The Authority's assets exceeded its liabilities at the close of the 2006 fiscal year by \$96,367,079. There are two major components of the Authority's net assets, investments in capital assets accounting for 43% and investments in board designated reserve funds accounting for 46%. The reserves have been set aside for future capital and construction expenditures.

	Net Assets	
	<u>2006</u>	<u>2005</u>
<b>Assets:</b>		
Current and Other Assets	89,074,703	91,639,521
Capital Assets	<u>129,124,346</u>	<u>124,815,833</u>
<b>Total Assets</b>	<b><u>218,199,049</u></b>	<b><u>216,455,354</u></b>
<b>Liabilities:</b>		
Long-Term Liabilities Outstanding	99,361,762	104,361,391
Landfill Closure and Post-Closure Costs (Current and Long-Term)	4,869,297	3,937,204
Other Liabilities	<u>17,600,911</u>	<u>17,021,078</u>
<b>Total Liabilities</b>	<b><u>121,831,970</u></b>	<b><u>125,319,673</u></b>
<b>Net Assets:</b>		
Invested in Capital Assets, net of Related Debt	41,704,146	29,490,124
Restricted	8,532,452	9,477,370
Unrestricted	<u>46,130,481</u>	<u>52,168,187</u>
<b>Total Net Assets</b>	<b><u>96,367,079</u></b>	<b><u>91,135,681</u></b>

The Authority has maintained a positive balance in net assets as indicated below. The Authority's net assets increased by \$5,231,398 during the year. Net tipping fee revenue increased by \$1,066,358 (3.5%) from the previous year due to increased tonnage into the system. Investment earnings increased by \$1,573,743 (72.3%) due to higher yields on invested principal. Total expenses increased \$1,910,924 (4.5%) from the previous year due to increased operating expenses. Operating expenses increased by \$2,045,316 (7.9%) (excluding depreciation) due to increased costs associated with the Closure and Post-Closure Care for Frey Farm and the costs associated with contracted operation of the Resource Recovery Facility.

	Change in Net Assets	
	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>		
Tipping Fees	31,520,038	30,453,680
Electric	11,797,701	11,805,778
Transportation	1,410,570	1,559,248
Investment Earnings	3,750,369	2,176,626
Other Revenue	<u>1,051,227</u>	<u>1,281,084</u>
<b>Total Revenues</b>	<b><u>49,529,905</u></b>	<b><u>47,276,416</u></b>

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

	<i>Change in Net Assets</i>	
	<u>2006</u>	<u>2005</u>
<b>Expenses:</b>		
Operating Expenses (excluding Depreciation)	27,961,328	25,916,012
Support Expenses (excluding Depreciation)	3,139,288	3,426,996
Depreciation Expense	7,308,949	6,973,365
Interest Expense	<u>5,888,942</u>	<u>6,071,210</u>
<b>Total Expenses</b>	<b><u>44,298,507</u></b>	<b><u>42,387,583</u></b>
Increase in Net Assets	5,231,398	4,888,833
Net Assets - January	<u>91,135,681</u>	<u>86,246,848</u>
<b>Net Assets - December 31</b>	<b><u>96,367,079</u></b>	<b><u>91,135,681</u></b>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

The Authority's capital assets (net of depreciation) as of December 31, 2006 are \$129,124,346. During 2006, the Authority's capital investments included the following: \$9.3M in Transfer Station renovations; \$500k in property purchases; \$400k in Frey Farm facility improvements and the write-off of the Liquid Treatment Plant equipment. The depreciation expense for 2006 was \$7.3M. A comparison of capital assets as of December 31, 2006 and December 31, 2005 is shown below.

	<i>Capital Assets</i>	
	<u>2006</u>	<u>2005</u>
Resource Recovery Facility	77,178,740	81,046,182
Landfill Facility	22,742,123	24,300,019
Construction in Progress	14,375,569	9,630,709
Support Facilities	6,916,224	1,382,718
Equipment	3,964,505	4,607,980
Other Real Estate	2,551,346	2,312,559
Administrative Building and Equipment	871,174	968,744
Transfer Station Facility	<u>524,665</u>	<u>566,922</u>
<b>Total Capital Assets</b>	<b><u>129,124,346</u></b>	<b><u>124,815,833</u></b>

Additional information on the Authority's capital assets can be found in footnotes 5 & 6 of the financial statements.

*Debt Administration*

At the end of December 31, 2006 the Authority had \$104,661,137 of bonds outstanding, a decrease of 6% from December 31, 2005. During the year the Authority refinanced its 98B Landfill Bonds with \$30,620,000 of debt at an average rate of 4.8% interest. The Authority also has an obligation to close the landfill sites and perform post-closure monitoring and has recorded related long-term liabilities in the amount of \$4,869,297. Footnotes 10 & 11 to the financial statements include more detailed information on long term liabilities.

**REVIEW OF OPERATIONS**

*Facilities*

The Authority owns three primary facilities which comprise the Authority's solid waste processing and disposal system (the System). The primary facilities are the Jack D. Lausch Transfer Station (TS), the Frey Farm Landfill (FFLF) and the Lancaster County Resource Recovery Facility (RRF). In 2006, the System received 569,850 tons of waste. Of that total, 353,000 tons were processed at the RRF while the remainder was deposited at the FFLF. The TS received 245,300 tons of waste which was transferred to either the RRF or FFLF. Overall, tonnages were above budgeted expectations by 3% for the year. All three facilities met the expectations of the Authority for the purposes of availability and overall operating performance. The RRF generated 214M kWh of electricity which the Authority sold to Metropolitan Edison Company at an average price of \$.0539/kWh, generating net revenue of \$11.5 million to the Authority.

**BUSINESS OUTLOOK**

*Revenue*

The Authority has positioned itself in a way that management believes will enable the organization to maintain a sound financial position which will provide the capital needs of the System. Steps have been taken to diversify the revenue mix and secure waste deliveries via short to mid-term contracts. Municipal Solid Waste (MSW) comprises 73% of all waste received and accounted for 50% of total revenue in 2006 or \$27.1M in tipping fees. All MSW received is generated in Lancaster County and its delivery into the System is secured via 5 year agreements between the Authority and private waste haulers operating in the county. The Authority has the ability to raise tipping fees beyond current levels under these current agreements if deemed necessary. The current agreements for MSW delivery expire at the end of 2007 and the Authority believes it will be able to renew these Agreements on favorable terms in advance of their expiration. The remaining 27% of waste received is classified as Residual Waste which accounted for 16% of total revenue in 2006 and \$8.4M in tipping fees. Residual Waste is received through contracts with either the waste generator, waste broker or waste transporter. The Authority has adequately diversified its risk in this area as no single customer accounts for more than 10% of the total residual waste business. The \$11.5M in electric revenue generated from the RRF comprises 21% of total revenue. Electricity is sold pursuant to an Electric Sales Agreement that does not expire until February 1, 2016.

*Capital Expenses/Reserve Management*

The Authority's capital spending program is managed judiciously, balancing System capital needs with that of free cash flow from operations and the need to maintain desired levels of reserve funds. Capital spending during the next year (2007) will be concentrated on completing the construction of the Transfer Station complex, and purchasing the equipment that is needed to run the facility. Total capital expenses for the project are expected to be \$27.1M with the final \$7.8M to be expended in 2007.

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**COMPARATIVE STATEMENTS OF NET ASSETS**

December 31, 2006 and 2005

	2006	2005
ASSETS		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 2,681,082	\$ 3,000,218
Investments	44,412,411	51,124,014
Accounts Receivable (net of Provision for Bad Debts - \$10,000 at 2006 and 2005)	6,185,270	4,881,152
Interest Receivable	675,218	633,736
Inventory	103,487	90,473
Other Current Assets (Note 3)	1,015,100	1,047,213
<b>Total Current Assets</b>	<b><u>55,072,568</u></b>	<b><u>60,776,806</u></b>
<b>RESTRICTED ASSETS</b>		
Investments with Trustee (Note 4)	19,517,566	16,443,964
Interest Receivable	27,222	4,198
Total Restricted Assets with Trustee	<u>19,544,788</u>	<u>16,448,162</u>
Closure and Post-Closure Care Funds	13,401,749	13,414,574
<b>Total Restricted Assets</b>	<b><u>32,946,537</u></b>	<b><u>29,862,736</u></b>
<b>OTHER ASSETS</b>		
Deferred Charges (net of Amortization of \$1,664,110 at 2006 and \$1,740,567 at 2005)	<b><u>1,055,598</u></b>	<b><u>999,979</u></b>
<b>REAL ESTATE, FACILITIES, and EQUIPMENT (Note 5)</b>		
Resource Recovery Facility	139,178,221	138,939,806
Landfill Facility	71,215,688	74,175,160
Equipment	10,496,346	10,351,847
Administrative Building and Equipment	2,751,945	2,744,395
Support Facilities	7,085,002	2,511,058
Other Real Estate	2,594,825	2,342,849
Transfer Station Facility	1,854,334	1,854,334
	<u>235,176,361</u>	<u>232,919,449</u>
Less: Depreciation to Date	120,427,584	117,734,325
<b>Net Depreciable Assets</b>	<b><u>114,748,777</u></b>	<b><u>115,185,124</u></b>
Construction in Progress (Note 6)	14,375,569	9,630,709
<b>Net Real Estate, Facilities, and Equipment</b>	<b><u>129,124,346</u></b>	<b><u>124,815,833</u></b>
<b>TOTAL ASSETS</b>	<b>\$ <u>218,199,049</u></b>	<b>\$ <u>216,455,354</u></b>

See notes to financial statements.

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**COMPARATIVE STATEMENTS OF NET ASSETS**

December 31, 2006 and 2005

	2006	2005
<b>LIABILITIES and NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt (Note 10)	\$ 8,430,000	\$ 8,155,000
Current Portion of Estimated		
Post-Closure Care Costs - Creswell	119,000	145,000
Accounts Payable - Trade	5,735,548	5,444,641
Accounts Payable - Other	938,233	978,161
Accrued Expenses (Note 8)	2,268,306	2,185,817
<b>Total Current Liabilities</b>	<b>17,491,087</b>	<b>16,908,619</b>
<b>CURRENT LIABILITIES (Payable from Restricted Assets with Trustee)</b>		
Accrued Interest Payable (Note 12)	228,824	247,259
Unpresented Bonds Due	-0-	10,200
<b>Total Current Liabilities (Payable from Restricted Assets with Trustee)</b>	<b>228,824</b>	<b>257,459</b>
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt - net of Current Portion (Note 10)	96,231,137	102,825,443
Estimated Post-Closure Care Costs - Creswell	942,000	1,188,000
Estimated Closure and Post-Closure Care Costs - Frey Farm	3,808,297	2,604,204
Other Liabilities (Note 11)	3,130,625	1,535,948
<b>Total Long-Term Liabilities</b>	<b>104,112,059</b>	<b>108,153,595</b>
<b>TOTAL LIABILITIES</b>	<b>121,831,970</b>	<b>125,319,673</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of Related Debt	41,704,146	29,490,124
Restricted for Landfill Closure and Post-Closure Costs	8,532,452	9,477,370
Unrestricted (Note 13)	46,130,481	52,168,187
<b>TOTAL NET ASSETS</b>	<b>96,367,079</b>	<b>91,135,681</b>
<b>TOTAL LIABILITIES and NET ASSETS</b>	<b>\$ 218,199,049</b>	<b>\$ 216,455,354</b>

See notes to financial statements.

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Gross Tipping Fees	\$ 35,563,940	\$ 34,242,644
Less: Tipping Fee Rebate	4,043,902	3,788,964
Net Tipping Fees	<u>31,520,038</u>	<u>30,453,680</u>
Energy	11,898,148	11,805,778
Transportation	1,410,570	1,559,248
Other	856,039	610,396
<b>Total Operating Revenues</b>	<b><u>45,684,795</u></b>	<b><u>44,429,102</u></b>
<b>OPERATING EXPENSES</b>		
Resource Recovery	18,738,360	17,700,471
Landfill	3,717,202	3,519,862
Transfer Station	2,524,888	2,502,211
Household Hazardous Waste	244,125	223,977
Maintenance	780,382	755,609
General and Administrative	835,375	888,094
Closure and Post-Closure Care - Frey Farm	1,204,093	307,114
Post-Closure Care - Creswell	(83,097)	18,674
Depreciation	7,254,698	6,919,070
<b>Total Operating Expenses</b>	<b><u>35,216,026</u></b>	<b><u>32,835,082</u></b>
<b>SUPPORT EXPENSES</b>		
General and Administrative	3,139,288	2,724,996
Marketing and Account Management	-	702,000
Depreciation	54,251	54,295
<b>Total Support Expenses</b>	<b><u>3,193,539</u></b>	<b><u>3,481,291</u></b>
<b>Total Operating and Support Expenses</b>	<b><u>38,409,565</u></b>	<b><u>36,316,373</u></b>
<b>OPERATING INCOME</b>	<b><u>7,275,230</u></b>	<b><u>8,112,729</u></b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
PA Grants	508,139	166,032
Sale of Assets	(606,930)	175,962
Miscellaneous	193,532	328,694
Investment Earnings	3,750,369	2,176,626
Interest Expense	(5,888,942)	(6,071,210)
<b>Net Non-Operating (Expenses)</b>	<b><u>(2,043,832)</u></b>	<b><u>(3,223,896)</u></b>
<b>CHANGE in NET ASSETS</b>	<b><u>5,231,398</u></b>	<b><u>4,888,833</u></b>
<b>NET ASSETS</b>		
Beginning of Year	<u>91,135,681</u>	<u>86,246,848</u>
<b>End of Year</b>	<b>\$ <u>96,367,079</u></b>	<b>\$ <u>91,135,681</u></b>

See notes to financial statements.

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**STATEMENTS OF CASH FLOW**  
Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 44,574,210	\$ 44,430,684
Payments to Suppliers	(25,676,546)	(24,253,489)
Payments to Employees	(4,135,958)	(3,934,705)
<b>Net Cash Provided by Operating Activities</b>	<b><u>14,761,706</u></b>	<b><u>16,242,490</u></b>
 CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES		
State and Local Grant Income	<b>508,139</b>	<b>166,032</b>
 CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Interest Paid	(4,983,914)	(5,805,207)
Principal Payments	(36,370,200)	(6,915,000)
Proceeds from Long Term Borrowing	30,620,000	10,000,000
Payments for Capital Acquisitions	(12,363,687)	(9,042,543)
Proceeds from Sale of Capital Assets	135,845	442,962
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b><u>(22,961,956)</u></b>	<b><u>(11,319,788)</u></b>
 CASH FLOWS from INVESTING ACTIVITIES		
Sales of Restricted Investments	113,494,850	72,445,584
Purchases of Restricted Investments	(116,704,103)	(75,747,043)
Receipts of Interest	3,805,754	3,105,306
Sales of Unrestricted Investments	251,723,404	59,911,945
Purchases of Unrestricted Investments	(244,946,930)	(67,943,848)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b><u>7,372,975</u></b>	<b><u>(8,228,056)</u></b>
<b>(DECREASE) in CASH and CASH EQUIVALENTS</b>	<b><u>(319,136)</u></b>	<b><u>(3,139,322)</u></b>
 CASH and CASH EQUIVALENTS		
Beginning	<u>3,000,218</u>	<u>6,139,540</u>
Ending	<b><u>\$ 2,681,082</u></b>	<b><u>\$ 3,000,218</u></b>

See notes to financial statements.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY  
 STATEMENTS OF CASH FLOW (continued)  
 Years Ended December 31, 2006 and 2005

	2006	2005
<b>RECONCILIATION of OPERATING INCOME</b>		
<b>to NET CASH PROVIDED by OPERATING ACTIVITIES</b>		
Operating Income	<u><b>\$7,275,230</b></u>	<u><b>\$8,112,729</b></u>
<b>ADJUSTMENTS to RECONCILE OPERATING INCOME</b>		
<b>to NET CASH PROVIDED by OPERATING ACTIVITIES</b>		
Depreciation	7,312,401	6,973,365
Miscellaneous Income Not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Assets Included for Cash Flow	193,533	328,693
(Increase) Decrease in:		
Accounts Receivable	(1,304,118)	(327,111)
Inventory and Other Current Assets	19,098	(910)
Increase in:		
Current Liabilities	333,469	958,510
Estimated Closure and Post-Closure Care Costs - Creswell and Frey Farm	<u>932,093</u>	<u>197,214</u>
<b>Total Adjustments</b>	<u><b>7,486,476</b></u>	<u><b>8,129,761</b></u>
<b>Net Cash Provided by Operating Activities</b>	<u><b>\$14,761,706</b></u>	<u><b>\$16,242,490</b></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS



LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

**NOTE I - SIGNIFICANT ACCOUNTING POLICIES**

**Description of Operations**

**Lancaster County Solid Waste Management Authority** is a body corporate and politic organized and existing under the Pennsylvania Municipality Authorities Act. The Authority was incorporated on December 14, 1954. The Authority is governed by a Board of Directors comprised of nine members, each of whom is appointed by the Lancaster County Board of County Commissioners.

The Pennsylvania Solid Waste Management Act as amended ("Act 97") and the Pennsylvania Municipal Waste Planning, Recycling and Waste Reduction Act as amended ("Act 101") are comprehensive laws regulating the management of solid waste disposal throughout Pennsylvania. Under Act 97 and Act 101 (collectively, the "Acts"), each County is required to adopt a municipal waste management plan for municipal waste generated within its boundaries.

The Lancaster County Municipal Waste Management Plan 1990 (the "1990 Plan") has been duly adopted and approved in accordance with the Acts by the Lancaster County Commissioners, 59 of the 60 municipalities within Lancaster County, and the Pennsylvania Department of Environmental Protection. The 1990 Plan was revised and updated by the Lancaster County Municipal Waste Management Plan 1999 (the "1999 Plan"). The 1999 Plan was duly approved by the Lancaster County Commissioners and the Pennsylvania Department of Environmental Protection. The 1990 Plan, as revised and updated by the 1999 Plan (the "Plan"), provides for a comprehensive and integrated system (the "System") for management of municipal solid waste which is generated in Lancaster County, Pennsylvania. The System includes, *inter alia*, (a) a resource recovery facility for incineration of municipal waste and generation of energy, (b) landfill facilities for the disposal of municipal solid waste and ash, (c) transfer facilities, (d) a recycling program, and (e) a household hazardous waste facility.

Under the Plan, the Authority has been designated as the public agency responsible for (a) financing, designing, constructing, and operating the System, (b) conducting continuing municipal waste planning, and (c) implementing the Plan. Such implementation is effected, *inter alia*, through the Lancaster County Municipal Waste Management Ordinance (the "1990 Ordinance") and the Municipal Waste Management Agreement between the Authority and the County of Lancaster effective as of October 15, 1990, (the "Municipal Waste Management Agreement"). Neither the 1990 Ordinance nor the Municipal Waste Management Agreement may be amended without the Authority's consent. The Plan has the force of law and violators are subject to civil and criminal penalties.

The effect of the Plan, and the ordinances and agreements which implement the Plan, is (a) to delegate to the Authority the County's rights, duties, and obligations for implementation of the Plan, (b) to grant to the Authority all powers which are necessary or appropriate to design, develop, finance, construct, own, operate, and manage the System, (c) to require delivery to the Authority's System of substantially all municipal solid waste generated in Lancaster County

not source separated or recycled, (d) to require licensing of all municipal waste collectors and haulers, and (e) to authorize the Authority to establish tipping fees to be collected from each person delivering waste to the System.

The Authority, which has no taxing power, establishes from time to time solid waste disposal fees at rates based upon prevailing market conditions in amounts which enable the Authority to obtain sufficient waste volume so that its revenues, together with other resources, are sufficient to cover all of the Authority's operating costs, administrative costs, capital costs, and other costs, including debt service. No public utility or other regulatory review of the Authority's rate or fee schedule is required.

During the past several years, there have been some court decisions which suggest that the waste flow control exercised by the Authority, under certain circumstances, may be invalid under the commerce clause of the United States Constitution.

The Authority has established a tipping fee rebate on tons of refuse delivered to the Authority. The rebate is available to any hauler who agreed to deliver to the Authority all municipal solid waste generated within Lancaster County in the possession or control of the hauler. It is the Authority's belief that the Authority's system will continue to receive sufficient volume of waste even without the availability of waste flow control.

**Reporting Entity**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, Financial Reporting Entity, the financial statements of the reporting entity (the Authority) include those of the **Lancaster County Solid Waste Management Authority** and any component units. Consistent with applicable guidance, the criteria used by the entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the Authority reviews the applicability of the following criteria:

The Authority is financially accountable for:

1. Organizations that make up the legal reporting entity.
2. Legally separate organizations if the Authority appoints a voting majority of the organization's governing body and the Authority is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Authority.

The Authority is able to impose its will on an organization if the Authority can significantly influence the programs, projects, or activities of, or the level of services performed or provided by the organization.

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE I - SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Reporting Entity (Continued)**

There is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Authority if the Authority (a) is entitled to the organization's resources, or (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (c) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the Authority. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, or set rates or charges, or issue bonded debt without approval by the Authority.

Based on the criteria above, there were no additional entities required to be included in the reporting entity under these criteria for the current period.

**Basis of Accounting**

The Lancaster County Solid Waste Management Authority operates as an enterprise activity and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority follows all applicable GASB pronouncements and FASB pronouncements issued before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first for restricted purposes, then unrestricted resources as they are needed.

**Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits, certificates of deposit, as well as, unrestricted investments with original maturities of three months or less.

**Unrestricted Investments**

Unrestricted investments are recorded at fair value and are classified as current assets due to their readily marketable nature.

**Restricted Assets**

**Investments with Trustee**

Pursuant to the terms of certain bond indentures, certain monies are held by a Trustee. The Authority is in compliance with investment guidelines regarding types of investments permitted. Investments are generally reported at fair value in accordance with accounting principles generally accepted in the United States of America.

**Landfill Closure and Post-Closure Funds**

Certain cash accounts held by the Authority are set aside for landfill closure and post-closure monitoring costs. The accounts are properly classified as restricted assets on the balance sheet. Regulations require the Authority to maintain the restricted accounts for the landfill closure and post-closure monitoring costs.

**Inventory**

Inventory consists of vehicle parts and accessories. All items are valued at the lower of cost (FIFO) or market. Inventory is consumed in the normal operations of the Authority.

**Real Estate, Facilities, and Equipment-Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous fiscal year.

Facilities and equipment are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Building and Fixtures	25-30
Motor Vehicles	5-10
Office Equipment	5-10
Operating Equipment	5-10
Support Equipment	5-10

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Real Estate, Facilities, and Equipment - Capital Assets (Continued)**

Depreciation of landfill cell development and site costs is recorded based on remaining units of capacity. Total depreciation for all capital assets of the Authority for the years ended December 31, 2006 and 2005, was \$7,308,949 and \$6,973,365 respectively.

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites. These costs totaled \$14,375,569 and \$9,630,709 at December 31, 2006 and 2005, respectively.

**Use of Estimates**

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates relate primarily to landfill closure and post-closure care costs and depreciation of fixed assets. Accordingly, actual results may differ from estimated amounts.

**Net Assets**

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets less accumulated depreciation less any outstanding debt related to the acquisition, construction, or improvement of those assets.

**NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS**

Pennsylvania statutes provide for investment of Authority funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Authority funds for investment purposes. In addition to the investments authorized, Authority fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Authority.

**Cash and Cash Equivalents - Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does have a formal policy for custodial credit risk. As of December 31, 2006, none of the Authority's bank balance of \$16,413 was exposed to custodial credit risk as:

Uninsured and Uncollateralized	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-
Uninsured and Collateral Held by the Pledging Financial Institution's Trust	-0-
Department not in the Authority's Name	<u>-0-</u>
	<u>-0-</u>

**Reconciliation of Cash and Cash Equivalents to the Balance Sheet**

Uninsured Amount Above	-0-
Plus: Insured Amount	<u>16,413</u>
Bank Balance	16,413
Add: Deposits in Transit	15,095
Less: Outstanding Checks	<u>(179,211)</u>
Carrying Amount - Bank Balances	(147,703)
Plus:	
Petty Cash	3,550
Commercial Paper	536,213
Money Market Funds	2,104,451
Repurchase Agreements	<u>184,571</u>
<u>Total Cash and Cash Equivalents</u>	
<u>Per Balance Sheet</u>	<u>2,681,082</u>

**Investments**

As of December 31, 2006, the Authority had the following investments:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
Commercial Paper	< 1 Year	536,213
Federal Farm Credit Banks	< 1 Year	987,500
Federal Home Loan Bank Bond	< 1 Year	6,619,098
Federal Home Loan Bank Bond	1-5 Years	7,011,807
Federal Home Loan Mortgage Corporate Bond	< 1 Year	99,191
Federal Home Loan Mortgage Corporate Bond	1-5 Years	885,874
Federal Home Loan Mortgage Corporate Debenture	1-5 Years	4,208,708
Federal Home Loan Mortgage Corporate Debenture	6-10 Years	243,828
Federal Home Loan Mortgage Corporation Gold Partn Cert	6-10 Years	23,601

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)**

<u>Investments (Continued)</u>	<u>Maturity</u>	<u>Fair Value</u>
Federal Home Loan Mortgage Corporation Partn Cert	10+ Years	1,396,906
Federal Home Loan Mortgage Corporation MTN	< 1 Year	835,093
Federal Home Loan Mortgage Corporation MTN	1-5 Years	1,890,753
Federal Home Loan Mortgage Corporation MTN	6-10 Years	782,972
Federal Home Loan Mortgage Corporation Multiclass Mtg Partn	6-10 Years	1,803,994
Federal National Mortgage Association Bond	< 1 Year	1,365,152
Federal National Mortgage Association Bond	1-5 Years	2,173,535
Federal National Mortgage Association Debenture	< 1 Year	500,155
Federal National Mortgage Association Debenture	1-5 Years	891,437
Federal National Mortgage Association Debenture	6-10 Years	175,875
Federal National Mortgage Association GTD Mt Pass thru CFT Pool	10+ Years	774,118
Federal National Mortgage Association GTD REMIC Pass Through	10+ Years	531,580
Federal National Mortgage Association Notes	< 1 Year	2,027,021
Federal National Mortgage Association Notes	1-5 Years	1,975,814
Federal National Mortgage Association Partn Cert	6-10 Years	187,415
Federal National Mortgage Association Partn Cert	10+ Years	1,865,427
Federated Treasury Obligations Money Market Fund		419,264
Goldman Sachs Financial Square Treasury Obligation Money Market Fund		6,047,741
Municipal Bonds	6-10 Years	300,000
Repurchase Agreements	< 1 Year	184,571
United States Treasury Bills	< 1 Year	11,793,012
United States Treasury Notes	< 1 Year	4,588,490
United States Treasury Notes	1-5 Years	11,194,543
United States Treasury Notes	6-10 Years	2,774,273
United States Treasury SLGS	6-10 years	<u>3,062,000</u>
		<u>80,156,961</u>

**Interest Rate Risk**

The Authority does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

The Authority has a formal investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2006, the Authority's investments were rated as:

<u>Investments</u>	<u>Standard &amp; Poor's</u>
Commercial Paper	AA
Federal Farm Credit Banks	AAA
Federal Home Loan Bank Bond	AAA
Federal Home Loan Mortgage Corporate Bond	AAA
Federal Home Loan Mortgage Corporate Debenture	AAA
Federal Home Loan Mortgage Corporation Gold Partn Cert	AAA
Federal Home Loan Mortgage Corporation Partn Cert	AAA
Federal Home Loan Mortgage Corporation MTN	AAA
Federal Home Loan Mortgage Corporation Multiclass Mtg Partn	AAA
Federal National Mortgage Association Bond	AAA
Federal National Mortgage Association Debenture	AAA
Federal National Mortgage Association GTD Mt Pass thru CFT Pool	AAA
Federal National Mortgage Association GTD REMIC Pass Through	AAA
Federal National Mortgage Association Notes	AAA
Federal National Mortgage Association Partn Cert	AAA
Federated Treasury Obligations Money Market Fund	AAA
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	AAA
Lancaster, PA IDA PT'13 Variable (Municipal Bonds)	A

**Concentration of Credit Risk**

The Authority has a formal investment policy that specifies limits on the amount they may invest in any one issuer. More than 5% of the Authority's investments are in United States Treasury Notes, Federal Home Loan Bank Bonds, United States Treasury Bills, Federal Home Loan Mortgage Corporate Debentures, Goldman Sachs Financial Squares Treasury Obligation Money Market Fund, and Federal National Mortgage Association Notes. These investments are 23.2%, 17.0%, 14.7%, 5.6%, 7.5% and 5.0% of total investments.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (continued)

**NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS**  
(Continued)

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Authority has a formal investment policy regarding custodial credit risk. Of the Authority's \$184,571 investment in repurchase agreements, all of the underlying securities are held by the counterparty's trust department, not in the Authority's name.

**Reconciliation of Investments to Balance Sheet**

Total Investments Per Above	80,156,961
Less: Commercial Paper	(536,213)
Money Market Funds	(2,104,451)
Repurchase Agreements	<u>(184,571)</u>
<b>Total Investments per Balance Sheet</b>	<b><u>77,331,726</u></b>

**NOTE 3 - OTHER CURRENT ASSETS**

Balances consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Impervious Soil Material	475,086	475,086
Prepaid Insurance	440,197	444,278
Other Prepays	<u>99,817</u>	<u>127,849</u>
	<u>1,015,100</u>	<u>1,047,213</u>

**NOTE 4 - RESTRICTED ASSETS WITH TRUSTEE**

Pursuant to the Amended and Restated Trust Indenture dated March 17, 1998, the following cash and investments were held with the Trustee at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Debt Service Reserve Funds	18,302,681	15,297,384
Principal and Interest Funds	106,891	83,460
Arbitrage Rebate Funds	<u>1,107,994</u>	<u>1,063,120</u>
Investments with Trustee	<u>19,517,566</u>	<u>16,443,964</u>

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (continued)

**NOTE 5 - REAL ESTATE, FACILITIES, and EQUIPMENT - CAPITAL ASSETS**

A summary of changes in capital assets for the year follows:

	Balance January 1, 2006	Increases	Decreases	Balance December 31, 2006
Capital Assets not Being Depreciated:				
Land and Improvements	18,987,430	231,565		19,218,995
Construction in Progress	9,630,709	11,144,860	(6,400,000)	14,375,569
<u>Total Capital Assets not     Being Depreciated</u>	<u>28,618,139</u>	<u>11,376,425</u>	<u>(6,400,000)</u>	<u>33,594,564</u>
Capital Assets Being Depreciated:				
Resource Recovery Facility	136,767,939	6,850		136,774,789
Less: Accumulated Depreciation	(57,893,624)	(4,105,857)		(61,999,481)
Landfill Facility	58,278,133	566,144	(3,525,617)	55,318,660
Less: Accumulated Depreciation	(49,875,141)	(2,076,644)	3,478,220	(48,473,565)
Transfer Station Facility	1,830,928			1,830,928
Less: Accumulated Depreciation	(1,287,412)	(42,257)		(1,329,669)
Administrative Building and Equipment	2,661,394	11,810	(4,260)	2,668,944
Less: Accumulated Depreciation	(1,775,651)	(108,883)	3,763	(1,880,771)
Support Facilities	2,511,058	6,405,984	(1,832,039)	7,085,003
Less: Accumulated Depreciation	(1,128,340)	(177,596)	1,137,158	(168,778)
Equipment	10,351,847	144,499		10,496,346
Less: Accumulated Depreciation	(5,743,867)	(787,974)		(6,531,841)
Other Real Estate	1,530,720	251,976		1,782,696
Less: Accumulated Depreciation	(30,290)	(13,189)		(43,479)
Other Capital Assets, net	<u>96,197,694</u>	<u>74,863</u>	<u>(742,775)</u>	<u>95,529,782</u>
Capital Assets, net	<u>124,815,833</u>	<u>11,451,288</u>	<u>(7,142,775)</u>	<u>129,124,346</u>

**NOTE 6 - CONSTRUCTION IN PROGRESS**

The Authority has various uncompleted construction projects shown as follows:

Description	Balance January 1, 2006	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2006
Transfer Station Renovation	8,553,283	11,096,228	6,400,000	13,249,511
Creswell Redevelopment	1,077,426	48,632		1,126,058
	<u>9,630,709</u>	<u>11,144,860</u>	<u>6,400,000</u>	<u>14,375,569</u>

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 7 - OTHER ASSETS, REAL ESTATE PURCHASES,  
and SALE COMMITMENTS**

During April 2002, the Authority entered into (a) an Agreement with Manor Township and (b) a Consent Order to settle certain pending litigation. Pursuant to the Agreement and the Consent Order and in order to protect the value of certain properties in Manor Township, Lancaster County, Pennsylvania, the Authority agreed to purchase, if requested to do so by the owner thereof, forty-seven properties at the fair market value determined without regard to any impact of the Authority's facilities or activities.

To date, the Authority has purchased seven of the forty-seven properties at a cost of \$1,267,390. The Authority estimates that the current fair market value of the remaining forty properties, determined without regard to the Authority's facilities and activities, is \$5,300,000. The Authority has resold three of the seven properties, net of costs, for \$355,047 (those three properties were purchased by the Authority for \$570,929, including settlement charges.)

The Authority owns two residential properties in Manor Township which, pursuant to agreements entered into in December 2000, are occupied by their former owners. Each agreement provides that the Authority will reimburse the former owner for maintenance and repair expenses in the amount of \$1,000 per month. The monthly payments will continue if the former owner resides in the property, until January 1, 2025. In the case of any owner who ceases to reside at the property, the agreement provides for a relocation fee (in lieu of the \$1,000 per month) in the amount of \$250 times the number of months from the date of the owner's vacating the property until January 1, 2025.

On July 29, 2005, the Authority acquired from Frey Dairy Farms, Inc., by Deed in Lieu of Condemnation, 1.379 acres adjacent to the Authority's landfill upon which PPL will be operating a Landfill Gas Electric Generation Facility. The Authority also acquired three related easements.

During November 2006, the Authority entered into an option agreement to sell real estate to Lancaster Biofuels, LLC (LBI). In consideration of the payment of \$20,000, the Authority, subject to provisions contained within the agreement, granted LBI the right to purchase approximately 65 acres of property located adjacent to the Authority's Resource Recovery Facility. The option period began in November of 2006 and expires May 31, 2008, with a right of extension to LBI to May 31, 2009. The exercise of the option is subject to certain pre-conditions and regulatory approvals. The option, if timely exercised, allows LBI to acquire the 65 acres at a price of \$2,700,000, payable in full at settlement.

**NOTE 8 - ACCRUED EXPENSES**

Balances consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Accrued Host Fees	271,704	310,875
Accrued DER Recycling Fees	484,593	475,247
Accrued County Closure Fee	19,746	17,424
Accrued Haulers Rebate	951,693	884,622
Accrued Prepaid Rebate	50,114	54,589
Accrued Payroll	371,494	296,264
Payroll Taxes and Pension Plan		
Accrued and Withheld	74,150	35,223
Accrued Miscellaneous	<u>44,812</u>	<u>111,573</u>
	<u>2,268,306</u>	<u>2,185,817</u>

**NOTE 9 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority self insures certain risks, for which commercial insurance is not economically available including pollution occurrence, through the Government Self Insurance Fund, an entity which is separate from the Authority. Each participant in the fund contributes to this entity on a self-assessed basis. Contributions are placed into a trust and managed pursuant to a trustee agreement. The available self insurance coverage was \$6,757,293 and \$6,535,265 at December 31, 2006 and 2005, respectively. The agreement for formation of the association provides that the association will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three years.

The Authority continues to carry commercial insurance for all other risks of loss including general liability and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 10 - LONG-TERM DEBT**

Long-term debt at December 31, 2006, was summarized as follows:

**A) \$121,160,000 Resource Recovery System Revenue Bonds, 1998 Series A**

On March 17, 1998, the Authority issued \$121,160,000 Resource Recovery System Revenue Bonds, 1998 Series A for the current refunding and redemption of the Authority's 1988 Series A Bonds and to pay the interest due on such bonds. The Authority's 1988 Series A Bonds were issued to finance a portion of the cost to acquire, construct, equip, and install a mass burn resource recovery facility and related facilities for the combustion of solid waste and electricity generation in Lancaster County, Pennsylvania. Proceeds of the 1998 Series A Bonds were

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 10 - LONG-TERM DEBT (continued)**

A) (continued)

also used to (a) pay a portion of the costs and expenses of issuing the Resource Recovery System Revenue Bonds, 1998 Series A and (b) fund a portion of the 1998 bond debt service reserve fund. The Bonds bear interest at 5.250%. The principal amount is due in various amounts from December 2007 to December 2014.

**B) \$28,205,000 Resource Recovery System Revenue Bonds, 1998 Series B**

On March 17, 1998, the Authority issued \$28,205,000 Resource Recovery System Revenue Bonds, 1998 Series B for the current refunding and redemption of the Authority's 1988 Landfill Bonds, to pay the interest due on such bonds, and to finance the 1998 Capital Project. The Authority's 1988 Landfill Bonds were issued to finance a portion of the cost to acquire a parcel of land in Lancaster County, Pennsylvania, adjacent to the Authority's existing landfill; to design and engineer an additional landfill on such parcel; to construct and equip a leachate treatment system and to construct the first two cells of the additional landfill. Proceeds of the 1998 Series B Bonds were also used to (a) pay a portion of the costs and expenses of issuing the 1998 Series B Bonds and (b) fund a portion of the 1998 Debt Service Reserve Fund. Interest rate is at 5.375%. The principal amount is due in December 2014 and December 2015. The Resource Recovery System Revenue Bonds, 1998 Series B, were defeased by the issuance of the Resource Recovery System Revenue Bonds, Series of 2006.

**C) \$10,000,000 Transfer Station Renovation Note, Series of 2005**

On July 15, 2005, the Authority issued \$10,000,000 Transfer Station Renovation Note, Series of 2005 for the design, engineering, construction and installation of, purchase and reimbursement of construction materials and equipment for, and reimbursement of costs and expenses in connection with a transfer station facility to be constructed on property owned by the Authority. Interest rate is at 3.150%. The principal amount is due in various amounts from December 2007 to December 2015.

**D) \$30,620,000 Resource Recovery System Revenue Bonds, Series of 2006**

On October 17, 2006, the Authority issued \$30,620,000 Resource Recovery System Revenue Bonds, Series of 2006 to (a) advance refunding of the Authority's Resource Recovery System Revenue Bonds, 1998 Series B, (b) fund a debt service reserve fund, and (c) pay the costs of issuing the Series 2006 Bonds. The bonds are payable in various principal amounts from December 2013 to

December 2015, and bear interest at rates from 3.70% to 5.00%.

As a result of the advance refunding, the Authority increased its debt service requirements by \$489,424. However, this is offset by the bond fund transfer of \$510,029 from the 1998 B Debt Service Reserve Fund and the establishment of a 2006 Debt Service Reserve Fund with an initial deposit of \$3,062,000. These events provide an overall savings of \$3,150,460, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,726,078. As of December 31, 2006, \$28,205,000 remains outstanding on the refunded issue.

All long-term debt is secured by the pledge of all of the Authority's right, title, and interest in the Authority's revenues and by all money and securities (except the Rebate Fund) held by the Trustee under the Amended and Restated Trust Indenture.

The annual debt service requirements for all outstanding debt as of December 31, 2006, were as follows:

Year	Principal	Interest	Total
2007	8,430,000	5,224,045	13,654,045
2008	8,870,000	4,795,840	13,665,840
2009	9,395,000	4,352,397	13,747,397
2010	9,960,000	3,878,488	13,838,488
2011	10,580,000	3,375,636	13,955,636
2012-2015	<u>59,295,000</u>	<u>6,825,285</u>	<u>66,120,285</u>
	<u>106,530,000</u>	<u>28,451,691</u>	<u>134,981,691</u>

Long-term debt consisted of the following at December 31, 2006:

	1998 Series A	2005 Note	2006 Series	Total
Principal				
Amount Due	66,755,000	9,155,000	30,620,000	106,530,000
Less:				
Current Portion	<u>7,555,000</u>	<u>875,000</u>	<u>0</u>	<u>8,430,000</u>
Long-Term				
Principal Due	59,200,000	8,280,000	30,620,000	98,100,000
Deferred				
Refunding Costs	<u>(788,733)</u>	<u>0</u>	<u>(1,080,130)</u>	<u>(1,868,863)</u>
Long-Term Debt				
December 31, 2006	<u>58,411,267</u>	<u>8,280,000</u>	<u>29,539,870</u>	<u>96,231,137</u>

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 10 - LONG-TERM DEBT (Continued)**

Deferred refunding costs are the difference between the reacquisition price of the refunded bonds and the carrying amount of the refunding bonds. Deferred refunding costs are amortized over the shorter of the remaining life of the refunded bonds or refunding bonds. The deferred refunding costs on the 1998 A Bonds and 2006 Bonds will be amortized in full at December 2010 and December 2009, respectively.

**NOTE 11 - OTHER LIABILITIES**

Balances consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Estimated Arbitrage Liability (payable from restricted assets with trustee)	103,161	66,874
Original Issue Premium - net of Amortization of \$2,357,898 at December 31, 2006 and \$2,490,003 at December 31, 2005	<u>3,027,464</u>	<u>1,469,074</u>
	<u><u>3,130,625</u></u>	<u><u>1,535,948</u></u>

Original issue premium is being amortized over the lives of the 1998 Series A and 2006 Series bonds.

**NOTE 12 - ACCRUED INTEREST PAYABLE**

The accrued interest payable reflects the liability calculated from the anniversary of debt payment, December 15, to December 31 for all debt issues.

**NOTE 13 - UNRESTRICTED NET ASSETS**

The Authority has established (a) a Construction Fund for anticipated future projects, (b) a Revenue Reserve Fund pursuant to certain provisions of the Amended and Restated Trust Indenture, and (c) a Capital Reserve Fund for the future purchases of tangible assets. The balances in these funds are included in unrestricted net assets and are board designated to their defined purpose. For the years ended December 31, 2006 and 2005, the balance of unrestricted net assets was as follows:

	<u>2006</u>	<u>2005</u>
Board Designated Unrestricted Net Assets:		
Construction Fund:		
Cash and Cash Equivalents	419,264	48,548
Investments	<u>8,405,680</u>	<u>7,806,019</u>
	8,824,944	7,854,567
Revenue Reserve Fund:		
Cash and Cash Equivalents	71,114	65,225
Investments	<u>9,695,752</u>	<u>9,303,258</u>
	9,766,866	9,368,483
Capital Reserve Fund:		
Cash and Cash Equivalents	23,773	35,819
Investments	<u>25,547,288</u>	<u>31,160,068</u>
	25,571,061	31,195,887
Total Board Designated Unrestricted Net Assets	44,162,871	48,418,937
Undesignated Unrestricted Net Assets	<u>1,967,610</u>	<u>3,749,250</u>
Total Unrestricted Net Assets	<u><u>46,130,481</u></u>	<u><u>52,168,187</u></u>

**NOTE 14 - RETIREMENT PLANS**

The Authority has a defined contribution money purchase pension plan (MPPP) covering substantially all of its employees. The Authority also has a Code Section 457 Eligible Deferred Compensation Plan (EDCP).

*Eligibility*

Employees become participants in the MPPP and EDCP after one year of service and 1,000 hours of service.

*Employer Contributions*

The Authority contributes seven percent (7%) of the active participant's pay to the MPPP. The Authority also matches a participant's contribution to the EDCP up to five percent (5%) of pay. All Authority matching contributions are deposited into the MPPP regardless of whether the participant makes contributions to the MPPP or EDCP or both. The total potential Authority contribution is a maximum of twelve percent (12%).

The Authority's required and matching contributions for the years ended December 31, 2006 and 2005, amounted to \$449,219 and \$424,505 respectively, which were 11.44% and 11.81%, respectively, of its covered payroll. Not all eligible employees have elected to participate at the maximum allowed percentage. The Authority's payroll for employees covered by the Plans for the years ended December 31, 2006 and 2005, was \$3,928,137 and \$3,594,923, respectively. Total payroll for the years ended December 31, 2006 and 2005, was \$4,126,574 and \$3,937,751 respectively.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (continued)

**NOTE 14 - RETIREMENT PLANS (Continued)**

*Employee Contributions*

Participants may contribute a maximum of eleven percent (11%) of pay to either the MPPP or EDCP or both. Participant contributions are on a post-tax basis to the MPPP and on a pre-tax basis to the EDCP. Employees' elected contributions for the years ended December 31, 2006 and 2005, amounted to \$261,297 and \$253,976, respectively.

*Vesting*

Employees are immediately invested in all their own contributions (whether to the MPPP or EDCP or both). Contributions made by the Authority to the MPPP begin vesting after three (3) years of service. Employees are gradually vested in the Authority's contributions until they attain seven (7) years of service when they are one hundred percent (100%) vested.

*Benefit Payments*

At the election of the employee or his/her designated beneficiary, benefits are paid to the employee or his/her beneficiaries upon the employee's retirement, termination or death in the form of an annuity or a lump sum. Benefits are determined by the employee's vested percentage in the employer and employee's contributions.

**NOTE 15 - POST RETIREMENT HEALTH CARE BENEFITS**

The Authority permits employees who retire at age 62 or later, with twenty or more years of service, to continue group medical insurance coverage to age 65 or until eligible for Medicare, whichever occurs first, by remitting a portion of the monthly premium to the Authority. The retiree's portion of the premium is payable in advance on a monthly basis. The Authority has elected to finance post employment benefits on a pay-as-you-go basis. The Authority recognizes expenditures for post employment group insurance when premiums are paid. Currently there is one participant receiving benefits. The total premiums paid by the participant and by the Authority for the years ended December 31, 2006 and 2005, were \$806 and \$709, as well as \$5,994 and \$7,651, respectively.

**NOTE 16 - TERMINATION BENEFITS**

During the year ended December 31, 2006, the Authority provided voluntary termination benefits to former employees. The benefits consist of periodic payments for periods ranging from six to nine months. The total cost of the benefits was \$148,557 during the year ended December 31, 2006. Costs were determined at the undiscounted total of estimated future benefit payments at current cost levels.

**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

**Outstanding Agreements dated September 25, 1987**

The Authority and Covanta Lancaster, Inc. (formerly known as Ogden Martin Systems of Lancaster, Inc.) ("Covanta Lancaster") entered into a design and construction agreement whereby Covanta Lancaster designed, engineered, constructed, and equipped a resource recovery facility. The facility achieved Acceptance on May 10, 1991.

The Authority and Covanta Lancaster entered into a separate service agreement (the "Service Agreement") whereby Covanta Lancaster is obligated to operate and maintain the resource recovery facility for a period of 20 years (with a five-year option) from the "Acceptance Date" (May 10, 1991). The agreement requires that Covanta Lancaster cause the resource recovery facility to continually meet certain performance guarantees and specifies various consequences if it does not do so. If the Authority were to default in performance of its obligations under the Service Agreement, such default could cause termination of the Service Agreement and involve other material, adverse consequences. Covanta Energy Corporation (formerly known as Ogden Corporation) guaranteed performance by Covanta Lancaster of its obligations under the Service Agreement.

The Authority and Metropolitan Edison Company entered into an agreement whereby the Authority will sell, and Metropolitan Edison Company is required to purchase, electric energy produced by the resource recovery facility and not used in the direct operation of the facility. The term of the agreement is for a period of twenty-five years commencing on February 1, 1991. If the Authority were to default in performance of its obligations under the agreement, Metropolitan Edison Company could terminate the agreement and such default could involve other material, adverse consequences.

Effective December 1, 2006, the Authority, with the consent of Covanta Lancaster and the Trustee under the Amended and Restated Trust Indenture dated March 17, 1998, issued an Option Notice and Exercise which exercised the five-year option, thereby extending the term of the Service Agreement until December 31, 2016, and also providing that the Authority maintains the option to extend the Service Agreement for an additional five years after 2016.

**Landfill Closure and Post-Closure Care Costs**

Landfill closure and post-closure costs are recorded following the provisions of Governmental Accounting Standards Board (GASB) Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs. The standards require that estimated closure and post-closure care costs be recognized as current operating costs although these costs will not actually be incurred until some future operating cycle.

Estimates of the closure and post-closure care costs are on a current value basis and based upon applicable federal, state, and local laws and regulations approved as of December 31, 2006 and 2005.

Closure tasks are carried on throughout the periods the Landfill is accepting wastes; post-closure monitoring and maintenance costs are incurred for thirty years after all closure requirements are approved by a regulatory agency and the facility is no longer accepting wastes. At December 31, 2006, the Authority has estimated the future closure and post-closure care costs to be \$13,051,412. The estimated date that the Frey Farm Landfill will reach capacity is the year 2020.

**LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

(continued)

**Landfill Closure and Post-Closure Care Costs (continued)**

Frey Farm closure and post-closure care costs have been recognized on the basis of approximately 54% and 50% of the Landfill capacity being used at December 31, 2006 and 2005, respectively. The estimate of the future costs is subject to change for inflation, deflation, changes in technology and federal, state, and local regulations.

The components of closure and post-closure care expense (income) in 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Closure and Post-Closure Care - Frey Farm		
—Net Increase in Estimate of Closure and Post-Closure Care Liability	<u>1,204,093</u>	<u>307,114</u>
Closure and Post-Closure Care - Creswell		
—Difference Between Actual and Estimated Costs - Current Year	(3,100)	314
—Net Increase (Decrease) in Estimate of Closure and Post-Closure Care Liability	<u>(127,000)</u>	<u>8,000</u>
	<u>(130,100)</u>	<u>8,314</u>

**Closure Collateral Funds and Other Commitments**

In accordance with rules and regulations of the Pennsylvania Department of Environmental Protection, the Authority is required to provide Collateral Bonds pledged to the Department of Environmental Protection for estimated future closure and post-closure care costs for its landfills and sites. The Authority has satisfied this obligation through irrevocable standby letters of credit issued by a commercial bank to the Pennsylvania Department of Environmental Protection. In addition, the Authority was required to provide a letter of credit to the Pennsylvania Department of Transportation in order to obtain a highway occupancy permit required in conjunction with a renovation project at the transfer station facility. The letters of credit issued totaled \$12,944,159 and are secured by deposits of \$13,401,749 (such deposits are included in the Authority's restricted assets) that are pledged to the financial institution which issued the letters of credit. Details are as follows:

<u>Sites</u>	<u>Amount to be Pledged</u>	<u>Collateral Bonds Pledged at December 31, 2006</u>
Frey Farm	9,136,899	9,136,899
Creswell	3,102,764	3,102,764
Resource Recovery	498,921	498,921
Transfer Station	94,396	94,396
Liquid Treatment Facility	36,179	36,179
Hempfield	<u>10,000</u>	<u>10,000</u>
Total Closure Collateral	12,879,159	12,879,159
Transfer Station Renovation	<u>65,000</u>	<u>65,000</u>
	<u>12,944,159</u>	<u>12,944,159</u>

**Construction Commitments**

The Authority had open construction contract commitments of \$7,066,273 and \$17,075,162 at December 31, 2006 and 2005, respectively, related to a renovation project at its transfer station facility.

**Other Contingencies**

The Authority is an operating entity which, since its formation in December 1954, has provided solid waste landfill disposal services. The Authority's first landfill began operation on October 3, 1955. This landfill was located in Manheim Township, to the west of Lancaster City at property owned by the Lancaster Brick Company. In 1962, the Authority started landfilling at a site south of Lancaster City. This site is now a part of the Lancaster County Park. In 1964, the Authority acquired land at Creswell, Manor Township, and in 1968 began landfilling at the Creswell site. During 1989, the Authority began landfilling at the Frey Farm landfill, which is adjacent to the Creswell landfill site. The Authority completed landfilling operations (a) at both the Lancaster Brick Company site and the Lancaster County Park site prior to 1970 and (b) at the Creswell site during 1989. The Lancaster Brick Company site, the Lancaster County Park site, and the Creswell site, along with 61 other sites in the County and 2,117 other sites within the Commonwealth of Pennsylvania, have been included on the Comprehensive Environmental Response, Compensation and Liability Information System ("CERCLIS"). CERCLIS is a list of sites identified by or referred to the United States Environmental Protection Agency as being worthy of investigation. The Authority cannot predict whether, and to what extent, it may have any liabilities or responsibilities with respect to any of these sites.

**Permits and Approvals**

In connection with the Authority's obtaining, in June 1986, zoning approval to use as a landfill the property which is currently known as the Authority's Frey Farm Landfill, the Manor Township Zoning Hearing Board included in its decision provisions which provided that the Authority "its successors and assigns shall not (a) expand the Creswell landfill beyond the tract known as the Frey Dairy Farm, (b) construct or operate any other refuse disposal facility within Manor Township, (c) cause any leachate collection or treatment facility to be constructed on any other site within Manor Township, or (d) construct and/or operate (within Manor Township) any facility for the incineration of refuse." The meaning and effect of the Zoning Hearing Board's decision have been clarified by the Agreement with Manor Township and the Consent Order. However, the Authority believes that the June 1986 decision by the Manor Township Zoning Hearing Board, the Agreement and the Consent Order may constitute governmental action which is subject to change in the future. Therefore, there is no assurance that the zoning and governmental approvals which will be in effect in the future will permit the use of the properties for the Authority's purposes or that the Authority will be able to satisfy whatever governmental and other conditions might be applicable to the Authority's use of the properties for the Authority's purposes.

**NOTE 18 - RECLASSIFICATION**

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported change in net assets.

TROUT, EBERSOLE & GROFF, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1705 OREGON PIKE  
LANCASTER, PENNSYLVANIA 17601  
(717) 569-2900  
TOLL FREE 1 (800) 448-1384  
FAX (717) 569-0141

**INDEPENDENT AUDITORS' REPORT on SUPPLEMENTARY INFORMATION**

To the Board of Directors  
**Lancaster County Solid Waste  
Management Authority**  
Lancaster, Pennsylvania

Our report on our audits of the basic financial statements of **Lancaster County Solid Waste Management Authority** for December 31, 2006 and 2005, appears on page 11. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of **Lancaster County Solid Waste Management Authority** as of and for the years ended December 31, 2004, 2003, and 2002, and we expressed unqualified opinions on those financial statements. In our opinion, the supplementary information on page 32, for which basic financial statements are not presented, is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

February 5, 2007  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants



LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY  
SCHEDULES OF CONDENSED REVENUES AND EXPENSES  
Years Ended December 31, 2006, 2005, 2004, 2003, and 2002

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>OPERATING REVENUES</b>					
Gross Tipping Fees	\$35,563,940	\$34,242,644	\$35,524,787	\$34,750,080	\$32,619,387
Less: Tipping Fee Rebate	<u>4,043,902</u>	<u>3,788,964</u>	<u>3,905,837</u>	<u>3,809,142</u>	<u>3,258,754</u>
Net Tipping Fees	31,520,038	30,453,680	31,618,950	30,940,938	29,360,633
Energy	11,898,148	11,805,778	11,982,755	11,680,264	11,848,105
Other	<u>2,266,609</u>	<u>2,169,644</u>	<u>2,162,897</u>	<u>1,750,086</u>	<u>1,845,259</u>
<b>Total Operating Revenues</b>	<b><u>45,684,795</u></b>	<b><u>44,429,102</u></b>	<b><u>45,764,602</u></b>	<b><u>44,371,288</u></b>	<b><u>43,053,997</u></b>
<b>OPERATING EXPENSES</b>					
Resource Recovery	18,738,360	17,700,471	17,295,703	16,902,840	16,465,327
Landfill	3,717,202	3,519,862	3,682,539	3,659,070	3,179,045
Transfer Station	2,524,888	2,502,211	2,284,372	2,214,033	2,042,205
Household Hazardous Waste	244,125	223,977	199,692	165,589	152,155
Maintenance	780,382	755,609	694,135	687,960	591,500
General and Administrative	835,375	888,094	987,606	978,618	838,496
Closure and Post-Closure Care	1,120,996	325,788	1,015,322	1,029,498	754,021
Depreciation and Amortization	<u>7,254,698</u>	<u>6,919,070</u>	<u>5,342,735</u>	<u>7,525,699</u>	<u>6,459,464</u>
<b>Total Operating Expenses</b>	<b><u>35,216,026</u></b>	<b><u>32,835,082</u></b>	<b><u>31,502,104</u></b>	<b><u>33,163,307</u></b>	<b><u>30,482,213</u></b>
<b>SUPPORT EXPENSES</b>	<b><u>3,193,539</u></b>	<b><u>3,481,291</u></b>	<b><u>3,377,494</u></b>	<b><u>3,299,669</u></b>	<b><u>3,578,096</u></b>
<b>Total Operating and Support Expenses</b>	<b><u>38,409,565</u></b>	<b><u>36,316,373</u></b>	<b><u>34,879,598</u></b>	<b><u>36,462,976</u></b>	<b><u>34,060,309</u></b>
<b>OPERATING INCOME</b>	<b><u>7,275,230</u></b>	<b><u>8,112,729</u></b>	<b><u>10,885,004</u></b>	<b><u>7,908,312</u></b>	<b><u>8,993,688</u></b>
<b>NON-OPERATING REVENUES</b>	94,741	670,688	639,270	235,493	730,834
<b>INVESTMENT EARNINGS</b>	3,750,369	2,176,626	1,618,551	2,388,230	3,468,152
<b>INTEREST EXPENSE</b>	<u>(5,888,942)</u>	<u>(6,071,210)</u>	<u>(6,277,761)</u>	<u>(6,609,110)</u>	<u>(6,921,965)</u>
<b>CHANGE in NET ASSETS</b>	<b><u>\$5,231,398</u></b>	<b><u>\$4,888,833</u></b>	<b><u>\$6,865,064</u></b>	<b><u>\$3,922,925</u></b>	<b><u>\$6,270,709</u></b>

See auditors' report on supplementary information.

BOARD OF DIRECTORS and SENIOR MANAGEMENT STAFF



## 2006 Board of Directors



Lester O. Houck  
Chairman



Barbara B. Hammel  
Vice Chairperson



John S. Kassees  
Treasurer



Melvin E. Rosier  
Secretary



William K. Ebel



Gerald G. Frost



John K. Musser



Jesse Wood

## Senior Management Staff



James D. Warner  
Executive Director



Gary A. Forster, P.E.  
RRF Contract Manager



Jack D. Lausch, Jr.  
Administrative Services Manager



Brooks K. Norris  
Technical Services Manager



Carol A. Olson  
Accounting Manager



David M. Wilhelm  
Capital Projects Manager



Robert B. Zorbaugh  
Operations Manager



1299 Harrisburg Pike  
PO Box 4425  
Lancaster, PA 17604  
717-397-9968  
Fax 717-397-9973  
[www.lcswma.org](http://www.lcswma.org)

© 2007 Lancaster County Solid Waste  
Management Authority  
All rights reserved.  
Printed in the U.S.A. on recycled paper.