



Waste-to-Energy Facility



Frey Farm Landfill



ANNUAL FINANCIAL REPORT

2008



Household Hazardous Waste Facility



Transfer Station

TABLE of CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	2 & 3
Financial Statements	
Comparative Statements of Net Assets	4 & 5
Statements of Revenues, Expenses, and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	8-18
Supplementary Information	
Schedule of Funding Progress - Other Postemployment Benefits (OPEB) - Post-Retirement Health Care Benefits Plan - Unaudited	18
Schedule of Employer Contributions - Other Postemployment Benefits (OPEB) - Post-Retirement Health Care Benefits Plan - Unaudited	18
Notes to Required Supplementary Information - Other Postemployment Benefits (OPEB) - Post-Retirement Health Care Benefits Plan - Unaudited	19
Schedules of Condensed Revenues and Expenses	20
Board Members and Management Staff	21

Dear Friend of the Authority

We are pleased to report that in 2008, the Authority successfully carried out its mission to the Lancaster County community by managing all of its solid waste in an environmentally sound, efficient and reliable manner. Our facilities operated to the highest environmental standards throughout the entire year. A noted accomplishment occurred when in February, the Authority's integrated solid waste management system and environmental management systems earned the prestigious International Management Standards Certificate (ISO 14001) from Lloyd's Register Quality Assurance Ltd. The Authority is only the 2nd integrated solid waste management system in the United States to have achieved this certification.

Financially, the Authority exceeded all of its goals. Total revenue was \$58,454,684 which was boosted by higher than normal investment returns of \$5,240,835 and several special waste events. Operating income (net of depreciation and amortization) increased by 18.8% to \$17,576,853 for the year. Restricted reserve fund contributions totaled \$8,100,000 bringing the balance of these funds to \$52,492,647. Total outstanding bond indebtedness decreased \$8 million (7%) during 2008 and now stands at \$98,846,454. All Authority debt expires no later than 2015.

Waste tonnages into the System during 2008 were 626,800. Municipal Waste accounted for 65% of this total while Residual Waste accounted for the remaining 35%. The Waste-to-Energy Facility processed 378,000 tons (highest since 2000), generating 219 million kilowatt hours of electricity, producing \$11.95 million in energy sales to Metropolitan Edison.

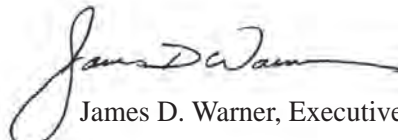
In the spring of 2008, the third and final phase of our new Transfer Station Complex project was completed. This phase included a new 14,500 square foot small vehicle drop-off building. The Transfer Station Complex was dedicated on May 16, 2008 and a public Open House was held on June 21, 2008. The complex won several prestigious local awards during the year.

We always appreciate the support and cooperation we have received from the Lancaster County community in our projects and programs. In 2009, we have additional plans that will further enhance the overall community and the environment in which we live!

Sincerely,



Barbara B. Hammel, Chairman of the Board



James D. Warner, Executive Director

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of **Lancaster County Solid Waste Management Authority** as of December 31, 2008 and 2007, 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, 2008 and 2007, 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 2 and 3, and the schedules of OPEB plan funding progress and employer contributions on pages 18 and 19, are not required parts of the basic financial statements but are 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.

The schedules of condensed revenues and expenses on page 20 is supplementary information 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, 2006, 2005, and 2004, and we expressed unqualified opinions on those financial statements. In our opinion, the supplementary information on page 20, 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.

Trout, Ebersole & Groff, LLP

February 12, 2009
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants



LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S 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, 2008.

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 revenues, 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 4 through 7 of this report.

Notes to financial statements 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 8 through 18 of this report.

FINANCIAL HIGHLIGHTS

The assets of the Authority exceeded its liabilities at the close of the 2008 fiscal year by \$112,999,536 (net assets). Of this amount, \$48,756,899 is invested in capital assets and \$7,263,177 is restricted for landfill closure and post-closure monitoring costs. Unrestricted net assets total \$56,979,460 of which \$52,492,646 has been set aside in reserve funds for capital, construction, and revenue needs.

The Authority's total net assets increased by \$9,150,066. This increase was primarily due to higher deliveries of special waste, higher metal prices and higher electric sales revenue due to increased boiler availability at the Resource Recovery Facility (RRF).

The Authority's total liabilities decreased by \$10,349,556 during the current fiscal year. This was due to completing the Transfer Station Complex allowing the construction retainage to be paid and paying down the principal on the outstanding debt.

FINANCIAL ANALYSIS

The Authority's assets exceeded its liabilities at the close of the 2008 fiscal year by \$112,999,536. There are two major components of the Authority's net assets: 1) investments in capital assets, accounting for 43%, and 2) investments in board designated reserve funds, accounting for 46%. The reserves have been set aside for future capital and construction expenditures.

	Net Assets	
	2008	2007
Current and Other Assets	97,215,041	93,729,525
Capital Assets	<u>130,100,208</u>	<u>134,785,214</u>
TOTAL ASSETS	227,315,249	228,514,739
Long-Term Liabilities Outstanding	81,672,760	100,805,235
Landfill Closure and Post-Closure Costs (Current and Long-Term)	6,155,119	5,769,219
Other Liabilities	<u>26,487,834</u>	<u>18,090,815</u>
TOTAL LIABILITIES	114,315,713	124,665,269
Net Assets:		
Invested in Capital Assets, net of Related Debt	48,756,899	45,450,719
Restricted	7,263,177	7,645,217
Unrestricted	<u>56,979,460</u>	<u>50,753,534</u>
TOTAL NET ASSETS	112,999,536	103,849,470

The Authority has maintained a positive balance in net assets as indicated above. The Authority's net assets increased by \$9,150,066 during the year. Tipping fee revenue increased by \$1,171,859, (3.2%) from the previous year due to high deliveries of waste from special projects. Total expenses increased \$1,386,559, (3.3%) from the previous year. Operating expenses increased by \$404,590, (1.5% excluding depreciation) due to RRF contract related expenses. Support expenses increased by \$70,335, (1.0% excluding depreciation) due to consulting costs associated with a system waste disposal capacity study.

	Change in Net Assets	
	2008	2007
Revenues:		
Tipping Fees	37,561,399	36,389,540
Energy	12,098,952	10,884,100
Transportation	1,368,402	1,228,861
Investment Earnings	5,240,835	5,482,660
Other Revenues	<u>2,168,020</u>	<u>1,788,656</u>
TOTAL REVENUES	58,437,608	55,773,817
Expenses:		
Operating Expenses, Excluding Depreciation	27,904,998	27,500,408
Support Expenses, Excluding Depreciation	7,382,702	7,312,367
Depreciation Expense	8,538,142	7,626,508
Interest Expense	<u>5,461,700</u>	<u>5,852,143</u>
TOTAL EXPENSES	49,287,542	48,291,426
Increase in Net Assets	9,150,066	7,482,391
Net Assets - January	<u>103,849,470</u>	<u>96,367,079</u>
NET ASSETS - DECEMBER 31	112,999,536	103,849,470

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)

FINANCIAL ANALYSIS (Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets (net of depreciation) as of December 31, 2008, are \$130,100,208. During 2008, the Authority's capital investments included the following: \$1,803,004 in Transfer Station renovations; \$419,365 in property purchases; \$762,601 in Frey Farm operating equipment and \$388,575 in Creswell redevelopment costs. The depreciation expense for 2008 was \$8,538,142. A comparison of capital assets as of December 31, 2008 and December 31, 2007, is shown below.

	Capital Assets	
	2008	2007
Resource Recovery Facility	69,173,328	73,135,203
Landfill Facility	21,934,949	22,021,398
Transfer Station Facility	20,770,680	16,349,655
Support Facilities	6,508,485	6,707,328
Equipment	5,403,109	5,706,885
Other Real Estate	4,938,900	4,588,836
Administrative Building and Equipment	1,369,679	1,443,197
Construction in Progress	1,078	4,832,712
TOTAL CAPITAL ASSETS	130,100,208	134,785,214

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

Debt Administration

At the end of December 31, 2008, the Authority had \$98,846,454 of outstanding bonds and other debt, a decrease of 7.5% from December 31, 2007. The Authority also has an obligation to close the landfill sites and perform post-closure monitoring and has recorded related liabilities in the amount of \$6,155,119. Notes 12 and 13 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 Transfer Station (TS), the Frey Farm Landfill (FFLF) and the Lancaster County Resource Recovery Facility (RRF). In 2008, the System received 626,800 tons of waste. Of that total, 378,000 tons were processed at the RRF while the remainder was deposited at the FFLF. The TS received 285,800 tons of waste which was transferred to either the RRF or FFLF. Overall, tonnages were above budgeted expectations by 14% for the year. All three facilities met the expectations of the Authority for the purposes of availability and overall operating performance. The RRF generated 219M kWh of electricity which the Authority sold to Metropolitan Edison Company at an average price of \$.0547/kWh, generating revenue of \$11,949,991 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 65% of all waste received and accounted for 47% of total revenue in 2008 or \$27,375,283 in tipping fees. MSW, generated in Lancaster County and delivered into the System, is secured via five 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 were renewed in 2007 (effective 1/1/2008) and expire at the end of 2012. MSW tons generated in Lancaster County and delivered to the system decreased 5% in 2008 vs. 2007. Management believes this decrease is due to overall weakening economic conditions. Management believes this weakness in MSW tonnage trends will continue through 2009. The remaining 35% of waste received is classified as Residual Waste which accounted for 17% of total revenue in 2008 and \$9,863,308 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 \$11,949,991 in electric revenue generated from the RRF comprises 20% 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. The capital budget for 2009 is \$3,391,500. Capital spending during the next year (2009) includes expenses at the Frey Farm Landfill for capping, gas management, and operating equipment.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Communications Manager, Lancaster County Solid Waste Management Authority, P.O. Box 4425, Lancaster, PA 17604, or e-mail to info@lcswma.org.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

COMPARATIVE STATEMENTS of NET ASSETS

December 31, 2008 and 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,146,169	\$ 6,622,866
Investments	51,684,017	45,459,961
Accounts Receivable, net of Provision for Bad Debts - \$10,000 at 2008 and 2007	6,166,172	5,792,590
Interest Receivable	671,409	732,266
Inventory	55,246	27,976
Other Current Assets (Note 3)	<u>913,300</u>	<u>967,204</u>
Total Current Assets	63,636,313	59,602,863
RESTRICTED ASSETS		
Cash and Cash Equivalents and Investments with Trustee (Note 4)	19,466,244	19,834,283
Interest Receivable	<u>5,489</u>	<u>13,252</u>
Total Restricted Assets with Trustee	19,471,733	19,847,535
Closure and Post-Closure Care Funds	<u>13,418,296</u>	<u>13,414,436</u>
Total Restricted Assets	32,890,029	33,261,971
OTHER ASSETS		
Deferred Charges, net of Amortization of \$2,031,009 at 2008 and \$1,855,017 at 2007	688,699	864,691
REAL ESTATE, FACILITIES, and EQUIPMENT (Note 5)		
Resource Recovery Facility	139,453,115	139,182,946
Landfill Facility	73,303,606	71,521,716
Transfer Station Facility	21,744,098	16,673,406
Equipment	12,723,970	12,005,665
Support Facilities	7,105,353	7,089,653
Other Real Estate	5,101,720	4,678,335
Administrative Building and Equipment	<u>2,881,989</u>	<u>3,450,293</u>
	262,313,851	254,602,014
Depreciation to Date	<u>(132,214,721)</u>	<u>(124,649,512)</u>
Net Depreciable Assets	130,099,130	129,952,502
Construction in Progress (Note 6)	<u>1,078</u>	<u>4,832,712</u>
Net Real Estate, Facilities, and Equipment	130,100,208	134,785,214
TOTAL ASSETS	<u>\$ 227,315,249</u>	<u>\$ 228,514,739</u>

See notes to financial statements.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

COMPARATIVE STATEMENTS of NET ASSETS

(Continued)

December 31, 2008 and 2007

	2008	2007
LIABILITIES and NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt (Note 12)	\$ 19,499,125	\$ 8,870,000
Current Portion of Estimated Post-Closure Care Costs - Creswell	120,000	111,000
Accounts Payable - Trade	3,990,647	4,877,965
Accounts Payable - Other (Note 8)	747,762	1,684,375
Accrued Expenses (Note 9)	1,918,444	2,286,989
Accrued Interest Payable (Note 10)	331,856	351,486
Unpresented Bonds Due	<u>-0-</u>	<u>20,000</u>
Total Current Liabilities	26,607,834	18,201,815
LONG-TERM LIABILITIES		
Long-Term Debt, net of Current Portion (Note 12)	79,347,329	97,961,443
Estimated Post-Closure Care Costs - Creswell	720,000	770,000
Estimated Closure and Post-Closure Care Costs - Frey Farm	5,315,119	4,888,219
Other Liabilities (Note 13)	<u>2,325,431</u>	<u>2,843,792</u>
Total Long-Term Liabilities	87,707,879	106,463,454
TOTAL LIABILITIES	<u>114,315,713</u>	<u>124,665,269</u>
NET ASSETS		
Invested in Capital Assets, net of Related Debt	48,756,899	45,450,719
Restricted for Landfill Closure and Post-Closure Costs	7,263,177	7,645,217
Unrestricted (Note 14)	<u>56,979,460</u>	<u>50,753,534</u>
TOTAL NET ASSETS	<u>\$ 112,999,536</u>	<u>\$ 103,849,470</u>

See notes to financial statements.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET ASSETS

Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Tipping Fees	\$ 37,561,399	\$ 36,389,540
Energy	12,098,952	10,884,100
Transportation	1,368,402	1,228,861
Other	<u>1,835,800</u>	<u>1,096,209</u>
Total Operating Revenues	52,864,553	49,598,710
OPERATING EXPENSES		
Resource Recovery	19,817,699	18,602,166
Landfill	3,686,341	3,782,407
Transfer Station Complex	3,033,509	3,104,829
Household Hazardous Waste	223,429	208,738
General and Administrative	635,246	775,522
Closure and Post-Closure Care - Frey Farm	426,900	1,079,922
Post-Closure Care - Creswell	81,874	(53,176)
Depreciation	<u>8,479,317</u>	<u>7,570,493</u>
Total Operating Expenses	36,384,315	35,070,901
SUPPORT EXPENSES		
General and Administrative	7,382,702	7,312,367
Depreciation	<u>58,825</u>	<u>56,015</u>
Total Support Expenses	7,441,527	7,368,382
Total Operating and Support Expenses	43,825,842	42,439,283
OPERATING INCOME	9,038,711	7,159,427
NON-OPERATING REVENUES (EXPENSES)		
Grant Revenues	160,753	230,951
Loss on Sale of Assets	(17,076)	(281,778)
Miscellaneous	188,543	743,274
Investment Earnings	5,240,835	5,482,660
Interest Expense	<u>(5,461,700)</u>	<u>(5,852,143)</u>
Net Non-Operating Revenues	111,355	322,964
CHANGES in NET ASSETS	9,150,066	7,482,391
NET ASSETS		
Beginning of Year	<u>103,849,470</u>	<u>96,367,079</u>
End of Year	<u>\$ 112,999,536</u>	<u>\$ 103,849,470</u>

See notes to financial statements.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

STATEMENTS of CASH FLOWS

Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 52,679,514	\$ 50,734,664
Payments to Suppliers	(32,690,390)	(29,687,186)
Payments to Employees	<u>(4,305,851)</u>	<u>(4,191,566)</u>
Net Cash Provided by Operating Activities	15,683,273	16,855,912
CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES		
State and Local Grant Income	160,753	230,951
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Interest Paid	(5,174,473)	(5,400,889)
Principal Payments	(8,890,000)	(8,410,000)
Proceeds from Long-Term Borrowing	312,375	10,000,000
Payments for Capital Acquisitions	(3,908,923)	(14,162,786)
Proceeds from Sale of Capital Assets	<u>35,259</u>	<u>590,180</u>
Net Cash Used by Capital and Related Financing Activities	(17,625,762)	(17,383,495)
CASH FLOWS from INVESTING ACTIVITIES		
Sales of Restricted Investments	101,172,427	115,114,082
Purchases of Restricted Investments	(99,961,180)	(114,826,622)
Receipts of Interest	3,720,123	3,984,317
Sales of Unrestricted Investments	64,391,736	178,254,381
Purchases of Unrestricted Investments	<u>(70,018,067)</u>	<u>(178,287,742)</u>
Net Cash Provided (Used) by Investing Activities	(694,961)	4,238,416
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	(2,476,697)	3,941,784
CASH and CASH EQUIVALENTS		
Beginning	<u>6,622,866</u>	<u>2,681,082</u>
Ending	<u>4,146,169</u>	<u>6,622,866</u>
RECONCILIATION of OPERATING INCOME to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating Income	9,038,711	7,159,427
ADJUSTMENTS to RECONCILE OPERATING INCOME to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	8,538,142	7,629,960
Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Assets Included for Cash Flow	191,995	743,274
(Increase) Decrease in:		
Accounts Receivable	(373,582)	392,680
Inventory and Other Current Assets	26,634	123,407
Increase (Decrease) in:		
Current Liabilities	(2,124,527)	(92,758)
Estimated Closure and Post-Closure Care Costs - Creswell and Frey Farm	<u>385,900</u>	<u>899,922</u>
Total Adjustments	6,644,562	9,696,485
Net Cash Provided by Operating Activities	\$ 15,683,273	\$ 16,855,912

See 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 permitting

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.

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.

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.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE I - SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Basis of Accounting

The Lancaster County Solid Waste Management Authority operates as a business-type 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 stated at the lower of cost, on the first-in-first-out basis, or market, and ferrous material recovered through operation of the resource recovery facility stated at market.

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 generally 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. The Authority capitalizes computer equipment with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of three years. 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 may be 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:

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

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, 2008 and 2007, was \$8,538,142 and \$7,626,508, respectively.

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites. These costs totaled \$1,078 and \$4,832,712 at December 31, 2008 and 2007, 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.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

NOTES to FINANCIAL STATEMENTS

(Continued)

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, short-term U.S. and Pennsylvania government obligations, insured or collateralized time deposits and certificates of deposit, obligations of the U.S. or Pennsylvania government which are backed by the full faith and credit of the U.S. or Pennsylvania government, and registered mutual funds which invest only in the preceding instruments. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Authority funds for investment purposes.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practice. There were no significant 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, 2008, \$0 of the Authority's bank balance of \$6,280,157 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 Department not in the Authority's Name	<u>-0-</u>
	-0-

Reconciliation of Cash and Cash Equivalents to the Balance Sheet

Uninsured Amount Above	-0-
Plus: Insured Amount	<u>6,280,157</u>
Bank Balance	6,280,157
Deposits in Transit	6,310
Outstanding Checks	<u>(240,843)</u>
Carrying Amount - Bank Balances	6,045,624
Petty Cash	3,150
Commercial Paper	1,149,444
Money Market Funds	3,131,894
Certificates of Deposit	<u>(6,183,943)</u>
Total Cash and Cash Equivalents Per Balance Sheet	4,146,169

Investments

As of December 31, 2008, the Authority had the following investments:

Investments	Maturity	Fair Value
Commercial Paper	< 1 Year	1,149,444
Federal Farm Credit Banks	< 1 Year	157,712
Federal Home Loan Bank Bond	< 1 Year	4,687,668
Federal Home Loan Bank Bond	1-5 Years	9,970,122
Federal Home Loan Mortgage Corporate Bond	< 1 Year	411,286
Federal Home Loan Mortgage Corporate Debenture	1-5 Years	2,073,598
Federal Home Loan Mortgage Corporation Gold Partn Cert	6-10 Years	15,446
Federal Home Loan Mortgage Corporation Partn Cert	10+ Years	2,261,211
Federal Home Loan Mortgage Corporation MTN	< 1 Year	2,257,432
Federal Home Loan Mortgage Corporation MTN	1-5 Years	5,008,708
Federal Home Loan Mortgage Corporation MTN	6-10 Years	226,750
Federal Home Loan Mortgage Corporation Multiclass Mtg Partn	6-10 Years	1,175,346
Federal National Mortgage Association Bond	< 1 Year	678,709
Federal National Mortgage Association Bond	1-5 Years	1,625,118
Federal National Mortgage Association Debenture	1-5 Years	2,843,754
Federal National Mortgage Association GTD REMIC Pass thru CMO	10+ Years	296,302
Federal National Mortgage Association MTN	< 1 Year	772,970
Federal National Mortgage Association MTN	1-5 Years	2,624,933
Federal National Mortgage Association MTN	6-10 Years	679,689
Federal National Mortgage Association Notes	< 1 Year	1,028,852
Federal National Mortgage Association Notes	1-5 Years	433,976
Federal National Mortgage Association Partn Cert	1-5 Years	101,140
Federal National Mortgage Association Partn Cert	6-10 Years	450,592
Federal National Mortgage Association Partn Cert	10+ Years	2,282,690
Financing Corp Federal Coupon FICO Strips Generic Int Pmt	1-5 Years	147,502
Financing Corp Strip Series I Int Pymt On FICO Bond	< 1 Year	92,728
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	< 1 Year	2,936,532

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Investments	Maturity	Fair Value
Government National Mortgage Association GTD REMIC Pass thru CMO	10+ Years	1,508,319
Raffles Insurance, Ltd. - Redeemable Preference Shares		30,900
Raffles Insurance, Ltd. - Common Share		100
United States Treasury Bills	< 1 Year	12,050,429
United States Treasury Notes	1-5 Years	14,706,177
United States Treasury Notes	6-10 Years	1,785,923
United States Treasury SLGS	6-10 Years	<u>3,062,000</u>
		79,534,058

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, 2008, the Authority's investments were rated as:

Investments	Standard & Poor's
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	A
Federal Home Loan Mortgage Corporation Gold Partn Cert	N/A
Federal Home Loan Mortgage Corporation Partn Cert	N/A
Federal Home Loan Mortgage Corporation MTN	AAA
Federal Home Loan Mortgage Corporation Multiclass Mtg Partn	N/A
Federal National Mortgage Association Bond	AAA
Federal National Mortgage Association Debenture	AA
Federal National Mortgage Association GTD REMIC thru CMO	N/A
Federal National Mortgage Association MTN	AAA
Federal National Mortgage Association Notes	AAA
Federal National Mortgage Association Partn Cert	N/A
Financing Corporation Federal Coupon FICO Strips Generic Int Pymt	N/A
Financing Corporation Strip Series I Int Pymt on FICO Bond	N/A
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	AAA
Government National Mortgage Association GTD REMIC Pass thru CMO	N/A

Concentration of Credit Risk

The Authority has a formal investment policy that limits the amount they may invest in any one issuer to 30% of total investments. More than 5% of the Authority's investments are in United States Treasury Notes, Federal Home Loan Bank Bonds, United States Treasury Bills, and Federal Home Loan Mortgage Corporate MTN. These investments are 18.6%, 16.5%, 13.6%, and 8.4% of total investments.

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.

Reconciliation of Investments to Statement of Net Assets

Total Investments Per Above	79,534,058
Less: Commercial Paper	(1,149,444)
Add: Certificates of Deposit	<u>6,183,943</u>
Total Investments per Statement of Net Assets	84,568,557

NOTE 3 - OTHER CURRENT ASSETS

Balances consisted of the following at December 31, 2008 and 2007:

	2008	2007
Impervious Soil Material	475,086	475,086
Prepaid Insurance	296,807	379,250
Other Prepaid Expenses	<u>141,407</u>	<u>112,868</u>
	913,300	967,204

NOTE 4 - RESTRICTED ASSETS with TRUSTEE

Pursuant to the Amended and Restated Trust Indenture dated March 17, 1998, the following investments were held with the Trustee at December 31, 2008 and 2007:

	2008	2007
Debt Service Reserve Funds	18,555,593	18,382,126
Principal and Interest Funds	133,544	294,553
Arbitrage Rebate Funds	<u>777,107</u>	<u>1,157,604</u>
Investments with Trustee	19,466,244	19,834,283

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, 2008	Additions	Deletions	Balance December 31, 2008
Capital Assets not Being Depreciated:				
Land and Improvements	19,218,995			19,218,995
Construction in Progress	4,832,712	2,185,384	(7,017,018)	1,078
Total Capital Assets not Being Depreciated	24,051,707	2,185,384	(7,017,018)	19,220,073
Capital Assets Being Depreciated:				
Resource Recovery Facility	136,779,511	270,178		137,049,689
Accumulated Depreciation	(66,047,748)	(4,232,039)		(70,279,787)
Landfill Facility	55,624,691	1,790,901	(9,015)	57,406,577
Accumulated Depreciation	(49,500,317)	(1,876,980)	8,640	(51,368,657)
Transfer Station Facility	16,650,000	5,070,692		21,720,692
Accumulated Depreciation	(323,750)	(649,668)		(973,418)
Equipment	12,005,665	1,111,149	(392,848)	12,723,966
Accumulated Depreciation	(6,298,778)	(1,363,718)	341,635	(7,320,861)
Support Facilities	7,089,653	15,699		7,105,352
Accumulated Depreciation	(382,324)	(214,544)		(596,868)
Other Real Estate	3,866,206	423,385		4,289,591
Accumulated Depreciation	(89,499)	(73,321)		(162,820)
Administrative Building and Equipment	3,367,293	58,930	(627,234)	2,798,989
Accumulated Depreciation	(2,007,096)	(131,327)	626,113	(1,512,310)
Capital Assets Being Depreciated, net Capital Assets, net	110,733,507	199,337	(52,709)	110,880,135
	134,785,214			130,100,208

NOTE 6 - CONSTRUCTION in PROGRESS

The Authority has various uncompleted construction projects shown as follows:

Description	Balance January 1, 2008	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2008
Transfer Station Renovation	3,267,688	1,795,729	(5,063,417)	-0-
Administration Building	3,522		(3,522)	-0-
Resource Recovery Facility	233,162		(233,162)	-0-
Landfill	1,328,340	389,655	(1,716,917)	1,078
	4,832,712	2,185,384	(7,017,018)	1,078

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 eleven of the forty-seven properties at a cost of \$3,567,838. The Authority estimates that the current fair market value of the remaining thirty-six properties, determined without regard to the Authority's facilities and activities, is \$4,488,750. The Authority has resold three of the eleven properties, net of costs, for \$403,500. Those three properties were purchased by the Authority for \$335,657, including settlement charges. The Authority also made improvements to these properties in the amount of \$40,523.

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.

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 expired May 31, 2008. The agreement was extended 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.

In September 2008, the Authority entered into an eight-month option agreement to purchase approximately 13 acres of property in Conoy Township. The option price was \$10,000, and gives the Authority the option to purchase the property for approximately \$165,000. In December 2008, the Authority authorized exercise of the option. The Authority intends to convey the property to the host municipality for development of a recreational trail.

NOTE 8 - ACCOUNTS PAYABLE - OTHER

Balances consisted of the following at December 31, 2008 and 2007:

	2008	2007
Prepaid Disposal Fees	747,762	841,795
Liability for Real Estate Purchase	-0-	842,580
	747,762	1,684,375

NOTE 9 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2008 and 2007:

	2008	2007
Accrued Host Fees	223,796	237,491
Accrued DER Recycling Fees	376,241	450,412
Accrued County Closure Fee	22,922	21,411
Accrued Haulers Rebate	840,113	960,520
Accrued Prepaid Rebate	39,541	47,075
Accrued Payroll	314,502	406,632
Payroll Taxes and Pension Plan		
Accrued and Withheld	54,556	72,904
Accrued Miscellaneous	46,773	90,544
	1,918,444	2,286,989

NOTE 10 - ACCRUED INTEREST PAYABLE

Accrued interest payable reflects the liability calculated from the anniversary of debt payment, December 15, to December 31 for the 1998 Series A Bonds, Series of 2005 Note, and 2006 Series Bonds. For the Series 2007 Note, the liability is calculated from August 15 to December 31.

NOTE 11 - 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 \$6,898,845 and \$6,580,500 at December 31, 2008 and 2007, 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. During the year ended December 31, 2008, the Authority received reimbursement from the fund for various claims. The amount of the reimbursement, \$75,654, is included in miscellaneous non-operating revenues in the accompanying statement of revenues, expenses and changes in net assets.

Effective in 2008, the Authority manages the risks of loss related to workers' compensation, general liability, and fleet operations through participation in a captive insurance program. Under this program, the Authority pays annual premiums to cover expected losses. In the event of adverse loss experience, the Authority

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 11 - RISK MANAGEMENT(Continued)

may be charged an experience adjustment, and is required to post a letter of credit to secure that commitment. The program also provides for risk-sharing among program participants. As of December 31, 2008, the Authority has not been notified of any experience adjustment or other obligation under the program.

The Authority continues to carry commercial insurance for other risks of loss including fiduciary and director liability, crime and dishonesty, employee health and accident insurance, and common forms of property loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 - LONG-TERM DEBT

Long-term debt at December 31, 2008, is summarized as follows:

\$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 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 2009 to December 2014.

\$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 2009 to December 2015.

\$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 refund 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%.

The Resource Recovery System Revenue Bonds, 1998 Series B were issued 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.

\$10,000,000 Resource Recovery System Revenue Note, Series of 2007

On February 23, 2007, the Authority issued \$10,000,000 Resource Recovery System Revenue Note, Series of 2007 for the design, construction of improvements, additions, renovations and extraordinary repairs to, and the acquisition and installation of, related equipment, machinery and furnishings for various buildings and facilities of the Authority, together with related architects', attorneys' and consultant fees, and the payment and issuance of the Note in connection with the resource recovery facility. Interest rate is at 3.68% and is due semi-annually on each February 15th and August 15th until maturity on February 15, 2009. The principal amount and all accrued interest thereon shall be due and payable on February 15, 2009.

Real Estate Note

On March 31, 2008, the Authority entered into an installment purchase agreement for real estate. The note is due in three equal installments of \$104,125 each March 31, 2009 through 2011. The note does not bear interest.

All bonds and bank notes are 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.

Long-term debt consists of the following at December 31, 2008:

	1998 Series A	2005 Note	2006 Series	2007 Note	Real Estate Note	Total
Principal Amount Due	51,235,000	7,375,000	30,620,000	10,000,000	312,375	99,542,375
Less: Current Portion	<u>8,455,000</u>	<u>940,000</u>	<u>-0-</u>	<u>10,000,000</u>	<u>104,125</u>	<u>19,499,125</u>
Long-Term Principal Due	42,780,000	6,435,000	30,620,000	-0-	208,250	80,043,250
Deferred Refunding Costs	<u>(335,877)</u>	<u>-0-</u>	<u>(360,044)</u>	<u>-0-</u>	<u>-0-</u>	<u>(695,921)</u>
	42,444,123	6,435,000	30,259,956	-0-	208,250	79,347,329

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 12 - 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.

The following is a summary of the Authority's long-term debt transactions for the year ended December 31, 2008:

Debt Outstanding - January 01, 2008	108,120,000
New Debt Issuance	312,375
Repayments	<u>(8,890,000)</u>
Debt Outstanding - December 31, 2008	99,542,375

The annual debt service requirements for all outstanding debt as of December 31, 2008, are as follows:

Year	Principal	Interest	Total
2009	19,499,125	4,540,486	24,039,611
2010	10,064,125	3,878,488	13,942,613
2011	10,684,125	3,375,636	14,059,761
2012	11,045,000	2,841,057	13,886,057
2013	22,555,000	2,307,773	24,862,773
2014 - 2015	<u>25,695,000</u>	<u>1,676,454</u>	<u>27,371,454</u>
	99,542,375	18,619,894	118,162,269

NOTE 13 - OTHER LIABILITIES

Balances consisted of the following at December 31, 2008 and 2007:

	2008	2007
Net Other Postemployment Benefit (OPEB) Obligation	67,949	-0-
Estimated Arbitrage Liability (Payable from Restricted Assets with Trustee)	134,410	278,949
Original Issue Premium - net of Amortization of \$3,262,290 at December 31, 2008 and \$2,820,519 at December 31, 2007	<u>2,123,072</u>	<u>2,564,843</u>
	2,325,431	2,843,792

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

NOTE 14 - 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 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, 2008 and 2007, the balance of unrestricted net assets are as follows:

	2008	2007
Board Designated Unrestricted Net Assets:		
Construction Fund:		
Cash and Cash Equivalents	1,421,513	4,557,448
Investments	<u>12,233,657</u>	<u>6,952,057</u>
	13,655,170	11,509,505
Revenue Reserve Fund:		
Cash and Cash Equivalents	10,014	62,094
Investments	<u>11,068,728</u>	<u>10,340,523</u>
	11,078,742	10,402,617
Capital Reserve Fund:		
Cash and Cash Equivalents	3,760	15,518
Investments	<u>27,754,974</u>	<u>27,704,355</u>
	27,758,734	27,719,873
Total Board Designated Unrestricted Net Assets	52,492,646	49,631,995
Undesignated Unrestricted Net Assets	<u>4,486,814</u>	<u>1,121,539</u>
Total Unrestricted Net Assets	56,979,460	50,753,534

NOTE 15 - RETIREMENT PLANS

The Authority has a defined contribution money purchase pension plan (MPPP) covering substantially all of its employees. The Authority also has an Internal Revenue Code Section 457 Eligible Deferred Compensation Plan (EDCP). The plans are governed by the Authority which may amend the plan provisions by action of its Board of Directors.

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, 2008 and 2007, were \$461,247 and \$462,142, respectively.

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, 2008 and 2007, were \$260,448 and \$260,011, respectively.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 16 - POST RETIREMENT HEALTH CARE BENEFITS

Plan Description

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 retired member must pay a portion of the premium, equal to the active participants' contribution (\$442 per year in 2008) for retiree coverage, and 100% of the spouse's premium, if applicable. The retiree's portion of the premium is payable in advance on a monthly basis. The Authority pays the remainder of the premium. The plan is governed by the Authority which may amend the benefit provisions and contribution requirements by action of its Board of Directors. The plan does not issue financial statements.

Funding Policy

The plan is unfunded. The Authority's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Authority has elected to amortize its initial unfunded actuarial liability over ten years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed, and the net OPEB obligation at December 31, 2008:

Annual Required Contribution	100,104
Interest on Net OPEB Obligation	-0-
Adjustment to Annual Required Contribution	-0-
Annual OPEB Cost	100,104
Contributions Made	32,155
Increase in Net OPEB Obligation	67,949
Net OPEB Obligation - Beginning of Year	-0-
Net OPEB Obligation - End of Year	67,949

The Authority implemented GASB Statement No. 45 in 2008, and has elected to implement the standard prospectively. Therefore, prior year comparative and trend data is not available. In future years, comparative and trend information will be presented.

NOTE 17 - TERMINATION BENEFITS

During the years ended December 31, 2008 and 2007, the Authority provided voluntary termination benefits to former employees. The benefits consist of periodic payments for periods ranging from six to twelve months. The Authority recorded costs for these benefits of \$132,623 and \$210,817 during the years ended December 31, 2008 and 2007, respectively. Costs were determined at the undiscounted total of estimated future benefit payments at current cost levels.

NOTE 18 - 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. 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.

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.

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, 2008 and 2007.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 18 - COMMITMENTS and CONTINGENCIES

(Continued)

Landfill Closure and Post-Closure Care Costs

(Continued)

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, 2008, the Authority has estimated the future closure and post-closure care costs to be \$13,786,750. The estimated date that the Frey Farm Landfill will reach capacity is the year 2020. Frey Farm closure and post-closure care costs have been recognized on the basis of approximately 59% and 56% of the Landfill capacity being used at December 31, 2008 and 2007, 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 2008 and 2007 are as follows:

	2008	2007
Closure and Post-Closure Care - Frey Farm		
Net Increase in Estimate of Closure and Post-Closure Care Liability	426,900	1,079,922
Closure and Post-Closure Care - Creswell		
Difference Between Actual and Estimated Costs - Current Year	(4,965)	(10,405)
Net Increase (Decrease) in Estimate of Closure and Post-Closure Care Liability	70,000	(61,000)
	65,035	(71,405)

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. The Authority was also 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 its renovation project at the transfer station facility. The Authority has also issued a letter of credit to Raffles Insurance, Ltd. to guaranty payment of additional captive insurance premiums. The letters of credit issued totaled \$12,922,711 and are secured by deposits of \$14,244,682 (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:

	Amount to be Pledged	Collateral Bonds Pledged at December 31, 2008
Sites		
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	10,000	10,000
Total Closure Collateral	12,879,159	12,879,159
Transfer Station Renovation	13,000	13,000
Captive Insurance Premium	30,552	30,552
	12,922,711	12,922,711

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

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 18 - COMMITMENTS and CONTINGENCIES
(Continued)

Permits and Approvals (Continued)

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.

Other Commitments

The Authority has entered into an agreement with Columbia Borough to provide funding toward planning and preconstruction costs of a road project. Payments are made on a cost reimbursement basis, and are contingent upon (a) Columbia Borough raising additional funds from other sources, and (b) construction commencing during 2007 or a reasonable time thereafter. The Authority recognizes these payments as an expense when reimbursements are requested. As of December 31, 2008, the Authority has paid \$228,633 toward its \$500,000 commitment.

In December 2008, the Authority authorized issuance of a \$10 million bank note, the proceeds of which will be used to refinance

the \$10,000,000 Resource Recovery System Revenue Note, Series of 2007. The bank proposal, which the Authority has accepted, specifies that the note will mature two years from the date of issuance and shall bear interest at 2.25%.

Pending Litigation

The Authority is party to several lawsuits arising from the normal course of its operations. The outcome of these matters cannot be determined at this time. It is anticipated that any potential uninsured losses from these claims will not have a material adverse effect on the Authority's financial position.

NOTE 19 - RECLASSIFICATION

Certain amounts in the prior periods presented have been reclassified to conform to the current year's presentation. These reclassifications have no effect on previously reported changes in net assets.

NOTE 20 - SUBSEQUENT EVENT

On January 29, 2009, the Authority purchased approximately 13 acres of real estate in Conoy Township for approximately \$165,000 by exercising its option referenced in Note 7.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE of FUNDING PROGRESS -

OTHER POSTEMPLOYMENT BENEFITS (OPEB) -

POST-RETIREMENT HEALTH CARE BENEFITS PLAN -

Unaudited

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
01/01/2008	-0-	591,742	591,742	0.0%

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE of EMPLOYER CONTRIBUTIONS -

OTHER POSTEMPLOYMENT BENEFITS (OPEB) -

POST-RETIREMENT HEALTH CARE BENEFITS PLAN -

Unaudited

Employer Contributions

Calendar Year	Annual Required Contribution	Contributions from Employer	Percentage Contributed
2008	100,104	32,155	32.1%

See auditors' report.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

NOTES to REQUIRED SUPPLEMENTARY INFORMATION

OTHER POSTEMPLOYMENT BENEFITS (OPEB) -

POST-RETIREMENT HEALTH CARE BENEFITS PLAN -

Unaudited

The information presented on the required supplementary schedules on page 18 was determined as part of the actuarial valuation at the date indicated. In future periods, the schedule will present multi-year trend information about whether the unfunded actuarial accrued liability is increasing or decreasing. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	01/01/2008
Actuarial Cost Method	Unit Credit
Amortization Method	Level Dollar Method
Remaining Amortization Period	10 Years
Asset Valuation Method	Not Applicable (the Plan is Unfunded)
Health Care Cost Trend	2008 10.0%
	2009 9.0%
	2010 8.0%
	2011 7.0%
	2012 6.0%
	2013 and Thereafter 5.0%

Actuarial Assumptions:

Discount Rate	4.00%
Pre-Retirement Mortality	RP-2000 Employee Mortality Table (Male and Female)
Post-Retirement Mortality	RP-2000 Healthy Annuitant Mortality Table (Male and Female)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Accordingly, actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective, and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.

Actuarial calculations are based on the types of benefits provided under the terms of the plan at the time of the valuations, and on the pattern of cost-sharing between the employer and plan members at that point.

See auditors' report.

LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

SCHEDULES of CONDENSED REVENUES and EXPENSES

Years Ended December 31, 2008, 2007, 2006, 2005, and 2004

	2008	2007	2006	2005	2004
OPERATING REVENUES					
Tipping Fees	\$ 37,561,399	\$ 36,389,540	\$ 35,563,940	\$ 34,242,644	\$ 35,524,787
Energy	12,098,952	10,884,100	11,898,148	11,805,778	11,982,755
Transportation and Other	<u>3,204,202</u>	<u>2,325,070</u>	<u>2,266,609</u>	<u>2,169,644</u>	<u>2,162,897</u>
Total Operating Revenues	52,864,553	49,598,710	49,728,697	48,218,066	49,670,439
OPERATING EXPENSES					
Resource Recovery	19,817,699	18,602,166	18,789,475	17,752,225	17,336,659
Landfill	3,686,341	3,782,407	3,717,202	3,519,862	3,682,539
Transfer Station Complex	3,033,509	3,104,829	3,254,155	3,206,066	2,937,551
Household Hazardous Waste	223,429	208,738	244,125	223,977	199,692
General and Administrative	635,246	775,522	835,375	888,094	987,606
Closure and Post-Closure Care	508,774	1,026,746	1,120,996	325,788	1,015,322
Depreciation and Amortization	<u>8,479,317</u>	<u>7,570,493</u>	<u>7,254,698</u>	<u>6,919,070</u>	<u>5,342,735</u>
Total Operating Expenses	36,384,315	35,070,901	35,216,026	32,835,082	31,502,104
SUPPORT EXPENSES	<u>7,441,527</u>	<u>7,368,382</u>	<u>7,237,441</u>	<u>7,270,255</u>	<u>7,283,331</u>
Total Operating and Support Expenses	<u>43,825,842</u>	<u>42,439,283</u>	<u>42,453,467</u>	<u>40,105,337</u>	<u>38,785,435</u>
OPERATING INCOME	9,038,711	7,159,427	7,275,230	8,112,729	10,885,004
NON-OPERATING REVENUES	332,220	692,447	94,741	670,688	639,270
INVESTMENT EARNINGS	5,240,835	5,482,660	3,750,369	2,176,626	1,618,551
INTEREST EXPENSE	<u>(5,461,700)</u>	<u>(5,852,143)</u>	<u>(5,888,942)</u>	<u>(6,071,210)</u>	<u>(6,277,761)</u>
CHANGES in NET ASSETS	<u>\$ 9,150,066</u>	<u>\$ 7,482,391</u>	<u>\$ 5,231,398</u>	<u>\$ 4,888,833</u>	<u>\$ 6,865,064</u>

See auditors' report.

Board Members 2008



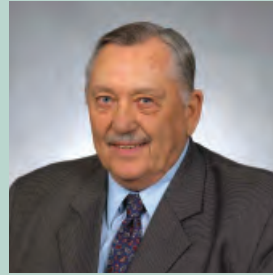
Barbara B. Hammel
Chairperson



Melvin E. Rosier
Vice Chairperson



John S. Kassees
Secretary



Jesse Wood
Treasurer

Jesse Wood retired from the Board of Directors at the end of 2008. He provided 30 years of service to the Authority.



William K. Ebel, Jr.



Gerald G. Frost



R. Edward Gordon



Lester O. Houck



John K. Musser



**LANCASTER COUNTY
SOLID WASTE MANAGEMENT
AUTHORITY**

OUR MISSION...

manage solid waste and recyclable materials in an environmentally safe, reliable and efficient manner.

Management Staff



James D. Warner
Executive Director



Gary A. Forster
Sr. Manager, RRF Contract



Jack D. Lausch, Jr.
Sr. Manager,
Administrative Services

Jack Lausch, Jr. retired in July 2008 after serving 34 years with the Authority in various senior management positions.



Brooks K. Norris
Sr. Manager, Technical Services



Carol A. Olson
Sr. Manager, Accounting



David M. Wilhelm
Sr. Manager, Capital Projects



Robert B. Zorbaugh
Sr. Manager, Operations



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