

**LANCASTER COUNTY SOLID
WASTE MANAGEMENT AUTHORITY**

YEARS ENDED DECEMBER 31, 2010 AND 2009

Lancaster County Solid Waste Management Authority
Lancaster, Pennsylvania

Years Ended December 31, 2010 and 2009

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Lancaster County Solid Waste Management Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2010 and 2009

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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 comparative statements of net assets of **Lancaster County Solid Waste Management Authority** as of December 31, 2010 and 2009, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Lancaster County Solid Waste Management Authority** as of December 31, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2011, on our consideration of **Lancaster County Solid Waste Management Authority's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other postemployment benefit information on pages 3 through 7 and 36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The schedules of condensed revenues and expenses on page 37 are supplementary information presented for purposes of additional analysis and are not a required part of the basic financial statements. We 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, 2008, 2007, and 2006, and we expressed unqualified opinions on those financial statements. In our opinion, the supplementary information on page 37, 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.

March 7, 2011
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP

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, 2010.

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 8 through 12 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 13 through 35 of this report.

FINANCIAL HIGHLIGHTS

The assets of the Authority exceeded its liabilities at the close of the 2010 fiscal year by \$130,501,568 (net assets). Of this amount, \$75,848,834 is invested in capital assets and \$7,806,939 is restricted for landfill closure and post-closure monitoring costs. Unrestricted net assets total \$46,845,795 of which \$39,942,622 has been set aside in reserve funds for capital, construction, and revenue needs.

The Authority's total net assets increased by \$6,929,951. This increase was primarily due to the 2009 refunding of debt which resulted in lower interest payments in 2010.

The Authority's total liabilities decreased by \$8,148,156 during the current fiscal year. This was mainly due to paying down principal on outstanding debt.

FINANCIAL ANALYSIS

The Authority's assets exceeded its liabilities at the close of the 2010 fiscal year by \$130,501,568. There are two major components of the Authority's net assets: 1) investments in capital assets, accounting for 58%, and 2) investments in board designated reserve funds, accounting for 31%. The reserves have been set aside for future capital and construction expenditures.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL ANALYSIS (Continued)

	Net Assets	
	2010	2009
Current and Other Assets	80,757,737	80,073,412
Capital Assets	<u>123,098,970</u>	<u>125,001,500</u>
TOTAL ASSETS	203,856,707	205,074,912
Long-Term Liabilities Outstanding	49,532,819	61,205,245
Landfill Closure and Post-Closure Costs (Current and Long-Term)	5,870,832	4,648,125
Other Liabilities	<u>17,951,488</u>	<u>15,649,925</u>
TOTAL LIABILITIES	73,355,139	81,503,295
Net Assets:		
Invested in Capital Assets, net of Related Debt	75,848,834	72,888,480
Restricted	7,806,939	8,834,928
Unrestricted	<u>46,845,795</u>	<u>41,848,209</u>
TOTAL NET ASSETS	130,501,568	123,571,617

The Authority has maintained a positive balance in net assets as indicated above. The Authority's net assets increased by \$6,929,951 during the year. Tipping fee revenue decreased by \$1,437,763, (3.7%) from the previous year due to special projects that occurred in 2009 which did not continue in 2010. Total expenses increased \$4,069,053, (9.6%) from the previous year. Operating expenses increased by \$2,752,894, (10.2% excluding depreciation) due to costs associated with closure and post closure for the Frey Farm Landfill. Support expenses increased by \$1,592,976, (20.5% excluding depreciation) due to contribution costs associated with support of a wind turbine project at the Frey Farm Landfill. Interest expense decreased by \$3,318,772 (60.2%) as a result of the 2009 bond refunding.

	Change in Net Assets	
	2010	2009
Revenues:		
Tipping Fees	37,573,863	39,011,626
Energy	11,394,917	11,800,032
Transportation	1,401,779	1,304,449
Investment Earnings	1,602,612	1,665,361
Other Revenues	<u>3,750,984</u>	<u>4,834,536</u>
TOTAL REVENUES	55,724,155	58,616,004

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL ANALYSIS (Continued)

	Change in Net Assets	
	2010	2009
Expenses:		
Operating Expenses, Excluding Depreciation	29,645,287	26,892,393
Support Expenses, Excluding Depreciation	9,363,068	7,770,092
Depreciation Expense	7,592,435	7,869,252
Interest Expense	<u>2,193,414</u>	<u>5,512,186</u>
TOTAL EXPENSES	48,794,204	48,043,923
Increase in Net Assets	6,929,951	10,572,081
Net Assets - January	<u>123,571,617</u>	<u>112,999,536</u>
NET ASSETS - DECEMBER 31	130,501,568	123,571,617

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets (net of depreciation) as of December 31, 2010, are \$123,098,970. During 2010, the Authority's capital investments included the following: \$3,337,300 in Frey Farm Landfill Cell 6 construction, \$413,065 to renovate the Reiber House (a historic building) and \$324,070 in Landfill redevelopment costs. The depreciation expense for 2010 was \$7,592,435. A comparison of capital assets as of December 31, 2010 and December 31, 2009, is shown below.

	Capital Assets	
	2010	2009
Resource Recovery Facility	61,230,145	65,188,333
Landfill Facility	23,429,305	20,619,757
Transfer Station Facility	19,520,171	20,141,406
Support Facilities	6,500,941	6,302,642
Equipment	4,203,084	5,088,798
Other Real Estate	4,500,531	4,318,420
Administrative Building and Equipment	1,283,669	1,295,126
Construction in Progress	<u>2,431,124</u>	<u>2,047,018</u>
TOTAL CAPITAL ASSETS	123,098,970	125,001,500

Additional information on the Authority's capital assets can be found in Notes 6 and 7 of the financial statements.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt Administration

At the end of December 31, 2010, the Authority had \$57,522,180 of outstanding bonds and other debt, a decrease of 15% from December 31, 2009. The Authority also has an obligation to close the Frey Farm Landfill and perform post-closure monitoring for both the Creswell and Frey Farm Landfills. The Authority has recorded related liabilities in the amount of \$5,870,832 for these activities. Notes 13 and 14 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 2010, the System received 601,250 tons of waste. Of that total, 369,200 tons were processed at the RRF while the remainder was deposited at the FFLF. The TS received 321,600 tons of waste and recyclable material which was transferred to the RRF, FFLF or a privately owned and operated recycling facility. Overall, tonnages were above budgeted expectations by 9% for the year. All three facilities met the expectations of the Authority for the purposes of availability and overall operating performance. The RRF generated 206M kWh of electricity which the Authority sold to Metropolitan Edison Company at an average price of \$.0552/kWh, generating revenue of \$11,339,980 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) comprised 66% of all waste received and accounted for 49% of total revenue in 2010 or \$27,351,870 in tipping fees. MSW waste includes Refuse and Construction/Demolition waste. 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 remained flat in 2010 vs. 2009. Management believes this lack of growth in MSW tons was a continued reflection of overall weakened economic conditions experienced in 2010. Management believes the stalled growth on MSW tonnage will begin to show improvement in 2011. The remaining waste received into the Authority system is Residual waste which accounted for 32% of waste tonnage in 2010. Residual waste accounted for \$9,997,729 in revenue which was 18% of total revenue for the year and 27% of all Tipping Revenue. Residual Waste is received through contracts with 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 7% of the total residual waste business.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

BUSINESS OUTLOOK (Continued)

Revenue (Continued)

In 2010 \$11,339,980 in electric revenue generated from the RRF comprised 20% of total revenue. Electricity is sold pursuant to an electric sales agreement that expires on February 1, 2016. An additional source of income for the Authority in 2010 were sales of carbon offset credits through the California Climate Action Reserve in the amount of \$363,503.

The Authority received \$1,500,000 in Grant Revenues from the Pennsylvania Energy Development Authority related to the PPL Renewable Energy (PPLRE)/LCSWMA wind turbine project at the Frey Farm Landfill. This grant income was then distributed to PPLRE as a contribution to the wind turbine project. There was a significant reduction in 2010 to Miscellaneous Revenue as a result of a contribution in 2009 from the Government Self Insurance Fund of \$3,000,000 which was incorporated into the 2009 bond refunding.

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 2011 is \$6,027,875. Capital spending during 2011 includes \$4,450,250 of expenses for a large soil moving project at the landfill facilities and continued consulting work related to the Frey Farm vertical expansion project. An additional \$530,000 of capital expenditures is related to consulting for a 4th unit at the RRF and \$607,000 is budgeted for site improvements at various Authority locations.

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, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,716,432	\$ 3,254,650
Investments	36,896,749	38,727,465
Accounts Receivable, net of Provision for Bad Debts of \$10,000 at 2010 and 2009	5,257,757	4,982,571
Grants Receivable	150,000	-0-
Note Receivable, Current Portion	464,458	6,342
Interest Receivable	371,263	365,962
Inventory	14,633	15,306
Other Current Assets (Note 3)	451,735	920,831
Total Current Assets	50,323,027	48,273,127
RESTRICTED ASSETS		
Investments with Trustee (Note 4)	11,723,313	17,278,130
Interest Receivable	4,289	1,271
Total Restricted Assets with Trustee	11,727,602	17,279,401
Closure and Post-Closure Care Funds	13,677,771	13,483,053
Total Restricted Assets	25,405,373	30,762,454
OTHER ASSETS		
Notes Receivable, net of Current Portion (Note 5)	4,650,000	464,458
Deferred Charges, net of Amortization of \$255,453 at 2010 and \$194,062 at 2009	379,337	573,373
Total Other Assets	5,029,337	1,037,831
REAL ESTATE, FACILITIES, and EQUIPMENT (Note 6)		
Resource Recovery Facility	139,670,309	139,538,719
Landfill Facility	77,019,246	73,216,099
Transfer Station Facility	21,868,484	21,797,043
Equipment	13,027,808	12,523,064
Support Facilities	7,530,692	7,115,472
Other Real Estate	4,721,554	4,489,305
Administrative Building and Equipment	2,948,358	2,908,411
	266,786,451	261,588,113
Depreciation to Date	(146,118,605)	(138,633,630)
Net Depreciable Assets	120,667,846	122,954,483
Construction in Progress (Note 7)	2,431,124	2,047,017
Net Real Estate, Facilities, and Equipment	123,098,970	125,001,500
TOTAL ASSETS	\$ 203,856,707	\$ 205,074,912

See notes to financial statements.

Lancaster County Solid Waste Management Authority

COMPARATIVE STATEMENTS of NET ASSETS

(Continued)

December 31, 2010 and 2009

	2010	2009
LIABILITIES and NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt (Note 13)	\$ 10,124,125	\$ 9,899,125
Current Portion of Estimated Post-Closure Care Costs - Creswell	146,000	140,000
Accounts Payable - Trade	4,037,103	3,145,581
Other Current Liabilities (Note 9)	1,646,631	665,733
Accrued Expenses (Note 10)	2,034,263	1,820,306
Accrued Interest Payable (Note 11)	109,366	119,180
	<hr/>	<hr/>
Total Current Liabilities	18,097,488	15,789,925
LONG-TERM LIABILITIES		
Long-Term Debt, net of Current Portion (Note 13)	47,398,055	57,453,938
Estimated Post-Closure Care Costs - Creswell	1,313,000	1,402,000
Estimated Closure and Post-Closure Care Costs - Frey Farm	4,411,832	3,106,125
Other Long-Term Liabilities (Note 14)	2,134,764	3,751,307
	<hr/>	<hr/>
Total Long-Term Liabilities	55,257,651	65,713,370
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TOTAL LIABILITIES	73,355,139	81,503,295
NET ASSETS		
Invested in Capital Assets, net of Related Debt	75,848,834	72,888,480
Restricted for Landfill Closure and Post-Closure Costs	7,806,939	8,834,928
Unrestricted (Note 15)	46,845,795	41,848,209
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TOTAL NET ASSETS	\$ 130,501,568	\$ 123,571,617
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See notes to financial statements.

Lancaster County Solid Waste Management Authority
 STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET ASSETS
 Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Tipping Fees	\$ 37,573,863	\$ 39,011,626
Energy	11,394,917	11,800,032
Transportation	1,401,779	1,304,449
Other	1,707,433	1,122,986
Total Operating Revenues	52,077,992	53,239,093
OPERATING EXPENSES		
Resource Recovery	20,279,451	20,030,157
Landfill	3,647,511	3,805,605
Transfer Station Complex	2,959,194	2,576,822
Household Hazardous Waste	321,515	274,531
General and Administrative	603,893	595,831
Closure and Post-Closure Care - Frey Farm	1,758,088	(1,220,500)
Post-Closure Care - Creswell	75,635	829,947
Depreciation	7,523,662	7,803,536
Total Operating Expenses	37,168,949	34,695,929
SUPPORT EXPENSES		
General and Administrative	9,363,068	7,770,092
Depreciation	68,773	65,716
Total Support Expenses	9,431,841	7,835,808
Total Operating and Support Expenses	46,600,790	42,531,737
OPERATING INCOME	5,477,202	10,707,356
NON-OPERATING REVENUES (EXPENSES)		
Grant Revenues	1,714,587	231,468
Gain (Loss) on Sale of Assets	(11,081)	117,902
Miscellaneous	340,045	3,362,180
Investment Earnings	1,602,612	1,665,361
Interest Expense	(2,193,414)	(5,512,186)
Net Non-Operating Revenues (Expenses)	1,452,749	(135,275)
CHANGES in NET ASSETS	6,929,951	10,572,081
NET ASSETS		
Beginning of Year	123,571,617	112,999,536
End of Year	\$ 130,501,568	\$ 123,571,617

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 52,117,115	\$ 57,784,874
Payments to Suppliers	(31,885,352)	(32,961,620)
Payments to Employees	<u>(4,190,892)</u>	<u>(4,096,015)</u>
Net Cash Provided by Operating Activities	16,040,871	20,727,239
CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES		
State and Local Grant Income	1,564,587	231,468
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Interest Paid	(2,718,786)	(4,569,143)
Principal Payments	(9,899,125)	(72,279,125)
Proceeds from Long-Term Borrowing	-0-	40,235,000
Payments for Capital Acquisitions	(5,841,104)	(3,442,725)
Proceeds from Sale of Capital Assets	<u>131,215</u>	<u>786,631</u>
Net Cash Used by Capital and Related Financing Activities	(18,327,800)	(39,269,362)
CASH FLOWS from INVESTING ACTIVITIES		
Issuance of Note Receivable	(4,650,000)	(470,800)
Payments Received on Notes Receivable	6,342	-0-
Sales of Restricted Investments	57,154,895	184,006,963
Purchases of Restricted Investments	(51,843,690)	(183,568,946)
Receipts of Interest	1,874,509	4,420,911
Sales of Unrestricted Investments	38,063,001	86,059,706
Purchases of Unrestricted Investments	<u>(36,420,933)</u>	<u>(73,028,698)</u>
Net Cash Provided by Investing Activities	<u>4,184,124</u>	<u>17,419,136</u>
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	3,461,782	(891,519)
CASH and CASH EQUIVALENTS		
Beginning	<u>3,254,650</u>	<u>4,146,169</u>
Ending	<u>\$ 6,716,432</u>	<u>\$ 3,254,650</u>

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

(Continued)

Years Ended December 31, 2010 and 2009

	2010	2009
RECONCILIATION of OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating Income	\$ 5,477,202	\$ 10,707,356
 ADJUSTMENTS to RECONCILE OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	7,592,435	7,869,252
Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Assets Included for Cash Flow	317,761	3,365,632
(Increase) Decrease in:		
Accounts Receivable	(275,186)	1,183,601
Inventory and Other Current Assets	469,769	32,409
Increase (Decrease) in:		
Current Liabilities	1,236,183	(924,017)
Estimated Closure and Post-Closure Care Costs - Creswell and Frey Farm	<u>1,222,707</u>	<u>(1,506,994)</u>
Total Adjustments	<u>10,563,669</u>	<u>10,019,883</u>
Net Cash Provided by Operating Activities	<u>\$ 16,040,871</u>	<u>\$ 20,727,239</u>

See notes to financial statements.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

NOTE 1 - 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 2010 (the “2010 Plan”) revised and updated the Lancaster County Municipal Waste Management Plan 1999 (the “1999 Plan”) and the Lancaster County Municipal Waste Management Plan 1990 (the “1990 Plan”). The 2010 Plan, the 1999 Plan and the 1990 Plan (collectively the “Plan”) were all duly approved by the Lancaster County Commissioners and the Pennsylvania Department of Environmental Protection in accordance with the Acts. 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) designing, developing, financing, constructing, and owning, operating and managing 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 adopted May 31, 1990 (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 facilities designated by the Authority 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description of Operations (Continued)

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 1 - 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2010 and 2009, was \$7,592,435 and \$7,869,252, respectively.

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites. These costs totaled \$2,431,124 and \$2,047,017 at December 31, 2010 and 2009, 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 has a formal policy for custodial credit risk. As of December 31, 2010, \$-0- of the Authority's bank balance of \$6,225,437 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>6,225,437</u>
Bank Balance	6,225,437
Deposits in Transit	12,222
Outstanding Checks	<u>(73,820)</u>
Carrying Amount - Bank Balances	6,163,839
Petty Cash	3,150
Commercial Paper	3,023,013
Money Market Funds	3,558,077
Certificates of Deposit	<u>(6,031,647)</u>
Total Cash and Cash Equivalents Per	
Statement of Net Assets	6,716,432

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Investments

As of December 31, 2010, the Authority had the following investments:

Investments	Maturity	Fair Value
Commercial Paper	<1 Year	3,023,013
Federal Farm Credit Banks	<1 Year	1,798,520
Federal Farm Credit Banks	1-5 Years	2,041,921
Federal Home Loan Bank Bond	< 1 Year	5,747,611
Federal Home Loan Bank Bond	1-5 Years	5,824,337
Federal Home Loan Bank Bond	6-10 Years	417,192
Federal Home Loan Mortgage Corporation REMIC	1-5 Years	152,683
Federal Home Loan Mortgage Corporation Pool	6-10 Years	10,804
Federal Home Loan Mortgage Corporation Pool	10+ Years	1,158,868
Federal Home Loan Mortgage Corporation Notes	<1 Year	499,745
Federal Home Loan Mortgage Corporation	<1 Year	4,064,099
Federal Home Loan Mortgage Corporation	1-5 Years	4,645,920
Federal Home Loan Mortgage Corporation	6-10 Years	241,628
Federal National Mortgage Association Pool	1-5 Years	44,118
Federal National Mortgage Association Pool	6-10 Years	372,806
Federal National Mortgage Association Pool	10+ Years	1,131,505
Federal National Mortgage Association	<1 Year	4,321,776
Federal National Mortgage Association	1-5 Years	4,340,121
Federal National Mortgage Association	6-10 Years	345,414
Federal National Mortgage Association	10+ Years	1,029,713
Freddie Mac Bond	1-5 Years	288,778
Government National Mortgage Association	10+ Years	1,030,631
Tax Exempt Municipal Bonds	<1 Year	1,340,590
Tax Exempt Municipal Bonds	1-5 Years	128,964
United States Treasury Notes	< 1 Year	1,478,455
United States Treasury Notes	1-5 Years	10,385,796
United States Treasury Notes	6-10 Years	2,024,672
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	<1 Year	1,368,519
RBC Select U. S. Government Money Market Fund	N/A	2,207,203
Wells Fargo Advantage Government Money Market Fund	N/A	1,350,874
Raffles Insurance, Ltd. - Redeemable Preference Share	N/A	30,900
Raffles Insurance, Ltd. - Common Share	N/A	100
		<u>62,847,276</u>

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Interest Rate Risk

The Authority has 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 limits its investment choices to certain credit ratings. As of December 31, 2010, 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 Corporation REMIC	N/A
Federal Home Loan Mortgage Corporation Pool	N/A
Federal Home Loan Mortgage Corporation Notes	N/A
Federal Home Loan Mortgage Corporation	AAA
Federal National Mortgage Association Pool	AAA
Federal National Mortgage Association	AAA
Freddie Mac Bond	N/A
Government National Mortgage Association	N/A
Tax Exempt Municipal Bonds	AA+
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	AAA
RBC Select U. S. Government Money Market Fund	N/A
Wells Fargo Advantage Government Money Market Fund	AAA
Raffles Insurance, Ltd.	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 Federal Home Loan Bank obligations, Federal National Mortgage Association obligations, Federal Home Loan Mortgage Corporation obligations, and Federal Farm Credit Bank obligations. These investments are 19.1%, 18.4%, 17.1%, and 6.1% of total investments, respectively.

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. At December 31, 2010, none of the Authority's investments were exposed to custodial credit risk.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Reconciliation of Investments to Statement of Net Assets

Total Investments Per Notes	62,847,276
Less: Commercial Paper	(3,023,013)
Less: Money Market Funds	(3,558,077)
Add: Certificates of Deposit	<u>6,031,647</u>
Total Investments per Statement of Net Assets	62,297,833

NOTE 3 - OTHER CURRENT ASSETS

Balances consisted of the following at December 31, 2010 and 2009:

	2010	2009
Impervious Soil Material	-0-	475,086
Prepaid Insurance	305,295	317,841
Other Prepaid Expenses	<u>146,440</u>	<u>127,904</u>
	451,735	920,831

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, 2010 and 2009:

	2010	2009
Project Funds	4,744,699	10,256,408
Debt Service Reserve Funds	6,199,054	6,216,972
Debt Service Funds	-0-	26,795
Arbitrage Rebate Funds	<u>779,560</u>	<u>777,955</u>
Investments with Trustee	11,723,313	17,278,130

NOTE 5 - NOTES RECEIVABLE

Mortgage Note Receivable

On December 22, 2009, the Authority sold real estate to an individual. In conjunction therewith, the Authority holds a mortgage note receivable in the original principal amount of \$470,800. The note bears interest at 5.50%. Payments on the note are due in equal monthly installments of \$2,673 from January 2010 through November 2011. A balloon payment of the entire principal balance outstanding is due in December 2011.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 5 - NOTES RECEIVABLE (Continued)

Note Receivable from PPL Renewable Energy, LLC (PPLRE)

On February 5, 2010, the Authority entered into a lease agreement with PPLRE whereby the Authority leased to PPLRE grounds at the Authority's landfill site upon which PPLRE constructed wind turbines for energy generation (Wind-to-Energy Project). During 2010, the Authority provided PPLRE with a \$4,650,000 improvement loan, the proceeds of which were used to pay a portion of the costs of constructing the Wind-to-Energy Project. Additionally, the Authority received a \$1,500,000 grant from the Pennsylvania Energy Development Authority, and contributed the grant amount to the Wind-to-Energy Project.

During the initial ten-year term of the lease, PPLRE will pay to the Authority 6% interest on the outstanding balance of the \$4,650,000 improvement loan. PPLRE shall also pay to the Authority 12.5% of Gross Project Energy Revenues as defined in the lease agreement.

In the event of a tenant default, as defined in the lease, during the initial ten-year term of the lease, PPLRE shall surrender the project to the Authority and pay to the Authority the remaining interest payments on the improvement loan. Payment by PPLRE of interest on the improvement loan is guaranteed by PPLRE's affiliate, PPL Energy Supply, LLC.

At the end of the initial ten-year term, PPLRE will (1) pay the principal balance of the improvement loan and continue to pay 12.5% of Gross Project Energy Revenues for an additional ten-year period, or (2) exit the Wind-to-Energy Project, forego payment of the principal of the improvement loan, and surrender the Wind-to-Energy Project to the Authority. The agreement can be renewed for a second ten-year term whereby the Authority will continue to receive 12.5% of Gross Project Energy Revenues. At the conclusion of the initial renewal term (year 20), the Authority has the option to purchase the asset at appraised value.

Notes receivable balances are summarized as follows:

	December 31, 2010		
	Current Portion	Long-Term Portion	Total
Mortgage Note Receivable	464,458	-0-	464,458
Note Receivable from PPLRE	<u>-0-</u>	<u>4,650,000</u>	<u>4,650,000</u>
	464,458	4,650,000	5,114,458
	December 31, 2009		
	Current Portion	Long-Term Portion	Total
Mortgage Note Receivable	6,342	464,458	470,800

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 6 - REAL ESTATE, FACILITIES, and EQUIPMENT - CAPITAL ASSETS

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

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
Capital Assets not Being Depreciated:				
Land and Improvements	20,330,415	350	(132,060)	20,198,705
Construction in Progress	<u>2,047,017</u>	<u>384,107</u>	<u> </u>	<u>2,431,124</u>
Total Capital Assets not Being Depreciated	22,377,432	384,457	(132,060)	22,629,829
Capital Assets Being Depreciated:				
Resource Recovery Facility	137,135,286	131,589		137,266,875
Accumulated Depreciation	(74,350,395)	(4,089,774)		(78,440,169)
Landfill Facility	56,207,651	3,934,858		60,142,509
Accumulated Depreciation	(52,596,338)	(993,604)		(53,589,942)
Transfer Station Facility	21,773,638	71,441		21,845,079
Accumulated Depreciation	(1,655,636)	(692,676)		(2,348,312)
Equipment	12,523,064	530,234	(25,490)	13,027,808
Accumulated Depreciation	(7,434,264)	(1,415,948)	25,490	(8,824,722)
Support Facilities	7,115,472	415,220		7,530,692
Accumulated Depreciation	(812,827)	(216,923)		(1,029,750)
Other Real Estate	3,677,176	232,249		3,909,425
Accumulated Depreciation	(170,885)	(50,135)		(221,020)
Administrative Building and Equipment	2,825,411	163,758	(123,811)	2,865,358
Accumulated Depreciation	<u>(1,613,285)</u>	<u>(164,980)</u>	<u>113,575</u>	<u>(1,664,690)</u>
Capital Assets Being Depreciated, net	102,624,068	(2,144,691)	(10,236)	100,469,141
Capital Assets, net	125,001,500			123,098,970

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 7 - CONSTRUCTION in PROGRESS

The Authority has uncompleted construction projects shown as follows:

Description	Balance January 1, 2010	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2010
Landfill	2,047,017	348,226	-0-	2,395,243
Administrative Building	<u>-0-</u>	<u>35,881</u>	<u>-0-</u>	<u>35,881</u>
	2,047,017	384,107	-0-	2,431,124

Construction in progress relates to future landfill development and improvements to the administrative building.

NOTE 8 - 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 twelve of the forty-seven properties at a cost of \$3,797,762. The Authority estimates that the current fair market value of the remaining thirty-five properties, determined without regard to the Authority's facilities and activities, is \$4,533,350. The Authority has resold four of the twelve properties, net of costs, for \$901,015. Those four properties were purchased by the Authority for \$944,052, including settlement charges. The Authority also made improvements to these properties in the amount of \$48,824.

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 2010, the Authority entered into an agreement to sell real estate at 821 Farmingdale Road to the Lancaster County Conservancy for \$490,000, and to impose an environmental easement on adjacent real estate, pursuant to a purchase and sale agreement, conservation easement, and environmental indemnity agreement. Closing on this transaction had not occurred at December 31, 2010.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 9 - OTHER CURRENT LIABILITIES

Balances consisted of the following at December 31, 2010 and 2009:

	2010	2009
Prepaid Disposal Fees	665,733	665,733
Arbitrage Obligation	<u>980,898</u>	<u>-0-</u>
	1,646,631	665,733

NOTE 10 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2010 and 2009:

	2010	2009
Accrued Host Fees	282,588	211,789
Accrued DER Recycling Fees	459,492	381,404
Accrued County Closure Fee	18,931	16,560
Accrued Haulers Rebate	861,748	857,214
Accrued Prepaid Rebate	42,852	40,197
Accrued Payroll	271,608	243,325
Payroll Taxes and Pension Plan		
Accrued and Withheld	41,705	35,847
Miscellaneous Accruals	<u>55,339</u>	<u>33,970</u>
	2,034,263	1,820,306

NOTE 11 - ACCRUED INTEREST PAYABLE

Accrued interest payable reflects the liability calculated from the anniversary of debt payment (December 15), to December 31 for the Series of 2005 Note, Series of 2006 Bonds, and Series B of 2009 Bonds.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 12 - 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 \$3,937,474 and \$3,955,913 at December 31, 2010 and 2009, respectively. The agreement for formation of the fund provides that the fund 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, 2010, the Authority received reimbursement from the fund for various claims totaling \$155,416. During the year ended December 31, 2009, the Authority received \$3 million from the fund as a return of prior period contributions. This amount is included in miscellaneous non-operating revenues in the accompanying statements of revenues, expenses, and changes in net assets, and was used by the Authority to effect the redemption of the Series A of 1998 bonds.

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 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, 2010, 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 13 - LONG-TERM DEBT

Long-term debt at December 31, 2010, is summarized as follows:

\$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 through December 2015.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - LONG-TERM DEBT (Continued)

\$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.

2008 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.

\$25,590,000 Resource Recovery System Revenue Bonds, Series B of 2009

On December 10, 2009, the Authority issued \$25,590,000 Resource Recovery System Bonds, Series B of 2009 to (a) currently refund the Resource Recovery System Revenue Note, Series of 2009, (b) finance certain capital improvements and equipment acquisitions, (c) fund a debt service reserve fund, and (d) pay the costs of issuing the Series B of 2009 Bonds. The Resource Recovery System Revenue Note, Series of 2009 was issued to currently refund the Resource Recovery System Revenue Note, Series of 2007. The Resource Recovery System Revenue Note, Series of 2007 was issued for the design, engineering, construction and installation of various capital projects of the Authority. The Bonds are payable in various principal amounts through December 2012, and bear interest at rates from 2.00% to 5.00%.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - LONG-TERM DEBT (Continued)

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

	2005	2006	2008 Real	2009 B	Total
	Note	Series	Estate Note	Series	
Principal Amount Due	5,460,000	30,620,000	104,125	21,415,000	57,599,125
Less: Current Portion	<u>1,015,000</u>	<u>-0-</u>	<u>104,125</u>	<u>9,005,000</u>	<u>10,124,125</u>
Long-Term Principal Due	4,445,000	30,620,000	-0-	12,410,000	47,475,000
Deferred Refunding Costs	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(76,945)</u>	<u>(76,945)</u>
	4,445,000	30,620,000	-0-	12,333,055	47,398,055

Deferred refunding costs are the difference between the reacquisition price of refunded bonds and the carrying amount of the refunded 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 2009 B Bonds will be amortized in full at December 2012.

The following is a summary of the Authority's long-term debt transactions for the year ended December 31, 2010:

Debt Outstanding - January 1, 2009	67,498,250
New Debt Issuance	-0-
Repayments	<u>(9,899,125)</u>
Debt Outstanding - December 31, 2010	57,599,125

The annual debt service requirements for all outstanding debt as of December 31, 2010, are as follows:

Year	Principal	Interest	Total
2011	10,124,125	2,497,200	12,621,325
2012	13,460,000	2,202,547	15,662,547
2013	12,025,000	1,596,024	13,621,024
2014	12,065,000	1,033,366	13,098,366
2015	<u>9,925,000</u>	<u>457,839</u>	<u>10,382,839</u>
	57,599,125	7,786,976	65,386,101

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - OTHER LONG-TERM LIABILITIES

Balances consisted of the following at December 31, 2010 and 2009:

	2010	2009
Net Other Postemployment Benefit (OPEB) Obligation	215,873	169,165
Estimated Arbitrage Liability (Payable from Restricted Assets with Trustee)	-0-	969,411
Nonqualified Deferred Compensation Plan Obligation	83,996	-0-
Original Issue Premium, net of Amortization of \$1,653,952 at December 31, 2010 and \$890,051 at December 31, 2009	<u>1,834,895</u>	<u>2,612,731</u>
	2,134,764	3,751,307

Original issue premium is being amortized over the lives of the 2006 Series and 2009 Series B bonds.

NOTE 15 - 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, 2010 and 2009, the balance of unrestricted net assets are as follows:

	2010	2009
Board Designated Unrestricted Net Assets:		
Construction Fund:		
Cash and Cash Equivalents	2,207,203	608,136
Investments	<u>7,501,201</u>	<u>8,675,961</u>
	9,708,404	9,284,097
Revenue Reserve Fund:		
Cash and Cash Equivalents	11,387	28,110
Investments	<u>7,774,602</u>	<u>7,545,092</u>
	7,785,989	7,573,202
Capital Reserve Fund:		
Cash and Cash Equivalents	1,162,725	118,368
Investments	<u>21,285,504</u>	<u>22,506,345</u>
	22,448,229	22,624,713
Total Board Designated Unrestricted Net Assets	39,942,622	39,482,012
Undesignated Unrestricted Net Assets	<u>6,903,173</u>	<u>2,366,197</u>
Total Unrestricted Net Assets	46,845,795	41,848,209

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 16 - 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 the plan to which the participant makes contributions. 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, 2010 and 2009, were \$452,689 and \$432,581, 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, 2010 and 2009, were \$258,235 and \$258,414, respectively.

NOTE 17 - POST RETIREMENT HEALTH CARE BENEFITS

Description

The Authority has adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect long-term liabilities of \$215,783 and \$169,165 at December 31, 2010 and 2009, respectively, in other long-term liabilities resulting from the adoption.

The Authority maintains a single employer defined benefit plan to permit 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 (\$624 per year in 2010 and 2009) 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 obligation for payment of benefits has been effectively transferred from the employer to the insurance company. The employer has not guaranteed benefits in the event the insurance company becomes insolvent. 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 17 - POST RETIREMENT HEALTH CARE BENEFITS (Continued)

Funding Policy

The Authority has elected to finance premiums on a pay-as-you-go basis. The Authority recognizes expenses for post employment group insurance as premiums are paid to the insurer. These financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation

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 parameters of GASB 45. 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 illustrates the components of the Authority's annual OPEB cost for the year, the amount actually contributed, and changes in the Authority's net OPEB obligation at December 31, 2010 and 2009:

	2010	2009
Annual Required Contribution	132,170	137,448
Interest on Net OPEB Obligation	6,767	2,718
Adjustment to Annual Required Contribution	<u>(16,917)</u>	<u>(6,795)</u>
Annual OPEB Cost	122,020	133,371
Contributions Made	<u>75,312</u>	<u>32,155</u>
Increase in Net OPEB Obligation	46,708	101,216
Net OPEB Obligation - Beginning of Year	<u>169,165</u>	<u>67,949</u>
Net OPEB Obligation - End of Year	215,873	169,165

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the new OPEB obligation for 2008, 2009, and 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation - End of Year
12/31/2008	100,104	32%	67,949
12/31/2009	133,371	24%	169,165
12/31/2010	122,020	62%	215,873

Funding Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$823,979, resulting in an unfunded actuarial accrued liability (UAAL) of \$823,979. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$3,909,333, and the ratio of the UAAL to the covered payroll equaled 21.07%.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 17 - POST RETIREMENT HEALTH CARE BENEFITS (Continued)

Funding Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Authority is required to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the Authority maintains no plan assets, information relative to Plan asset required disclosures is not applicable. Additionally, because 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Authority and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated January 1, 2009, the unit credit cost method was used. Because the Authority funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) legally held exclusively for paying the postemployment medical benefits. Actuarial assumptions included an interest rate of 4.0% per annum, healthcare cost trend rates of 9.0% in the first year gradually decreasing by 1% per year to an ultimate rate of 5% in 2013 and later, and the use of the level dollar method amortization method over a 10 year period.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 18 - COMMITMENTS and CONTINGENCIES (Continued)

Outstanding Agreements Dated September 25, 1987 (Continued)

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 Service 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 Service Agreement, Metropolitan Edison Company could terminate the Service 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, 2010 and 2009.

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, 2010, the Authority has estimated the future closure and post-closure care costs to be \$12,009,092. The estimated date that the Frey Farm Landfill will reach capacity is the year 2019. Frey Farm closure and post-closure care costs have been recognized on the basis of approximately 65% and 62% of the Landfill capacity being used at December 31, 2010 and 2009, respectively. The estimate of the future costs is subject to change for inflation, deflation, changes in technology and federal, state, and local regulations.

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)

The components of closure and post-closure care expense (income) in 2010 and 2009 are as follows:

	2010	2009
Closure and Post-Closure Care - Frey Farm		
Net Increase (Decrease) in Estimate of		
Closure and Post-Closure Care Liability	1,758,088	(1,220,500)
Closure and Post-Closure Care - Creswell		
Difference Between Actual and Estimated		
Costs - Current Year	(9,753)	(5,813)
Net Increase in Estimate of Closure		
and Post-Closure Care Liability	<u>83,000</u>	<u>822,000</u>
	73,247	816,187

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 of 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 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 \$13,026,448 and are secured by deposits of \$13,677,771 (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, 2010
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
Captive Insurance Premium	<u>147,289</u>	<u>147,289</u>
	13,026,448	13,026,448

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 18 - COMMITMENTS and CONTINGENCIES (Continued)

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.

Construction Contract Commitments

The Authority has construction contract commitments outstanding at December 31, 2010, of \$5,387,599 related to the soil borrow project at Frey Farm Landfill.

Other Commitments

The Authority has a binding commitment to provide future cash donations to the Bainbridge Fire Company during the years 2011 through 2026. The Bainbridge Fire Company provides fire protection services to the Authority's Resource Recovery Facility. The amount of the donation is equal to an escalating rate per ton of waste processed at the Facility each year. The Authority estimates that the 2011 donation will be \$29,800, and that total donations over the term of the agreement will be \$566,200.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 18 - COMMITMENTS and CONTINGENCIES (Continued)

Other Commitments (Continued)

The Authority has a binding commitment to provide funding to the Susquehanna Heritage Corporation during the years 2010 through 2014. The Susquehanna Heritage Corporation promotes heritage tourism and economic development in portions of York and Lancaster Counties (the Heritage Area). The Authority operates a landfill and waste-to-energy facility located within the Heritage Area. The amount of funding is variable, determined as \$0.10 per revenue ton of waste processed at the facilities. In 2010, the Authority provided \$59,121 to the Susquehanna Heritage Corporation. The Authority estimates that its remaining obligation under the agreement is \$240,000.

Pending Litigation

The Authority is party to a lawsuit arising from the normal course of its operations. The outcome of this matter cannot be determined at this time. It is anticipated that any potential uninsured loss from this claim will not have a material adverse effect on the Authority's financial position.

NOTE 19 - RECLASSIFICATIONS

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.

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%
01/01/2009	-0-	823,979	823,979	0.0%

See auditors' report.

Lancaster County Solid Waste Management Authority

SCHEDULES of CONDENSED REVENUES and EXPENSES

Years Ended December 31, 2010, 2009, 2008, 2007, and 2006

	2010	2009	2008	2007	2006
OPERATING REVENUES					
Tipping Fees	\$ 37,573,863	\$ 39,011,626	\$ 37,561,399	\$ 36,389,540	\$ 35,563,940
Energy	11,394,917	11,800,032	11,992,187	10,749,990	11,797,701
Transportation and Other	<u>3,109,212</u>	<u>2,427,435</u>	<u>3,268,433</u>	<u>2,393,644</u>	<u>2,262,571</u>
Total Operating Revenues	52,077,992	53,239,093	52,822,019	49,533,174	49,624,212
OPERATING EXPENSES					
Resource Recovery	20,279,451	20,030,157	19,817,699	18,602,166	18,789,475
Landfill	3,647,511	3,805,605	3,686,341	3,782,407	3,717,202
Transfer Station Complex	2,959,194	2,576,822	3,033,509	3,104,829	3,254,155
Household Hazardous Waste	321,515	274,531	223,429	208,738	244,125
General and Administrative	603,893	595,831	592,712	709,986	730,890
Closure and Post-Closure Care	1,833,723	(390,553)	508,774	1,026,746	1,120,996
Depreciation and Amortization	<u>7,523,662</u>	<u>7,803,536</u>	<u>8,479,317</u>	<u>7,570,493</u>	<u>7,254,698</u>
Total Operating Expenses	37,168,949	34,695,929	36,341,781	35,005,365	35,111,541
SUPPORT EXPENSES	<u>9,431,841</u>	<u>7,835,808</u>	<u>7,441,527</u>	<u>7,368,382</u>	<u>7,237,441</u>
Total Operating and Support Expenses	<u>46,600,790</u>	<u>42,531,737</u>	<u>43,783,308</u>	<u>42,373,747</u>	<u>42,348,982</u>
OPERATING INCOME	5,477,202	10,707,356	9,038,711	7,159,427	7,275,230
NET NON-OPERATING REVENUES	2,043,551	3,711,550	332,220	692,447	94,741
INVESTMENT EARNINGS	1,602,612	1,665,361	5,240,835	5,482,660	3,750,369
INTEREST EXPENSE	<u>(2,193,414)</u>	<u>(5,512,186)</u>	<u>(5,461,700)</u>	<u>(5,852,143)</u>	<u>(5,888,942)</u>
CHANGES in NET ASSETS	<u>\$ 6,929,951</u>	<u>\$ 10,572,081</u>	<u>\$ 9,150,066</u>	<u>\$ 7,482,391</u>	<u>\$ 5,231,398</u>

See auditors' report.

Lancaster County Solid Waste Management Authority

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

Year Ended December 31, 2010

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at January 01, 2010	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at December 31, 2010
U.S. Department of Energy Passed Through the Pennsylvania Department of Environmental Protection:									
ARRA - State Energy Program	I/F	81.041	4100050380	08/10/09 - 02/09/11	1,500,000	\$ -0-	\$ 1,350,000	\$ 1,500,000	\$ 150,000

Legend

I = Indirect funding

F = Federal share

CFDA = Catalog of Federal Domestic Assistance

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting

See auditors' report.

**REPORT on INTERNAL CONTROL over FINANCIAL REPORTING and on COMPLIANCE
and OTHER MATTERS BASED on an AUDIT of FINANCIAL STATEMENTS PERFORMED in
ACCORDANCE with *GOVERNMENT AUDITING STANDARDS***

To the Board Officers and Members
Lancaster County Solid Waste Management Authority
Lancaster County, Pennsylvania

We have audited the financial statements of **Lancaster County Solid Waste Management Authority** as of and for the year ended December 31, 2010, and have issued our report thereon dated March 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board Officers and Members, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 7, 2011
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT on COMPLIANCE with REQUIREMENTS that COULD HAVE a DIRECT and MATERIAL EFFECT on each MAJOR PROGRAM and on INTERNAL CONTROL over COMPLIANCE in ACCORDANCE with OMB CIRCULAR A-133

To the Board Officers and Members
Lancaster County Solid Waste Management Authority
Lancaster County, Pennsylvania

Compliance

We have audited **Lancaster County Solid Waste Management Authority's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on **Lancaster County Solid Waste Management's** major federal program for the year ended December 31, 2010. **Lancaster County Solid Waste Management Authority's** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of **Lancaster County Solid Waste Management Authority's** management. Our responsibility is to express an opinion on **Lancaster County Solid Waste Management Authority's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Lancaster County Solid Waste Management Authority's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Lancaster County Solid Waste Management Authority's** compliance with those requirements.

In our opinion, **Lancaster County Solid Waste Management Authority** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

Management of **Lancaster County Solid Waste Management Authority** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Lancaster County Solid Waste Management Authority's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Lancaster County Solid Waste Management Authority's** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the Board Officers and Members, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 7, 2011
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Lancaster County Solid Waste Management Authority

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended December 31, 2010

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of **Lancaster County Solid Waste Management Authority**.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of **Lancaster County Solid Waste Management Authority** were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal programs are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for **Lancaster County Solid Waste Management Authority** expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for **Lancaster County Solid Waste Management Authority** are reported in part C of this schedule.
7. The program tested as a major program is State Energy Program - CFDA #81.041.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. **Lancaster County Solid Waste Management Authority** was not determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

None

Lancaster County Solid Waste Management Authority

SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS

Year Ended December 31, 2010

A single audit was not performed for the year ended December 31, 2009 because it was not required.