

Lancaster County Solid Waste Management Authority

Years Ended December 31, 2011 and 2010



TROUT, EBERSOLE & GROFF<sub>LLP</sub>

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# Lancaster County Solid Waste Management Authority

Lancaster, Pennsylvania

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Years Ended December 31, 2011 and 2010

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# Lancaster County Solid Waste Management Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2011 and 2010

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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, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Lancaster County Solid Waste Management Authority** as of December 31, 2011 and 2010, 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.

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 2 through 6 and 35, 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.

*Trout, Ebersole & Groff, LLP*

February 28, 2012  
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

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# 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, 2011.

### **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 7 through 11 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 12 through 34 of this report.

### **FINANCIAL HIGHLIGHTS**

The assets of the Authority decreased by \$2,026,879. This is mainly due to funding the capital expenditures in 2011 with the 2009 Construction Fund. Total liabilities decreased by \$10,260,418 as a result of the principal payment on the Authority debt. The Authority's revenues exceeded its expenses by \$8,233,539 which resulted in an increase to total net assets for 2011.

The assets of the Authority exceeded its liabilities at the close of the 2011 fiscal year by \$138,735,107 (net assets). Of this amount, \$79,597,261 is invested in capital assets and \$7,589,354 is restricted for landfill closure and post-closure monitoring costs. Unrestricted net assets total \$51,548,492 of which \$44,048,842 has been set aside in reserve funds for capital, construction, and revenue needs.

### **FINANCIAL ANALYSIS**

The Authority's assets exceeded its liabilities at the close of the 2011 fiscal year by \$138,735,107. There are two major components of the Authority's net assets: 1) investments in capital assets, accounting for 57.4%, and 2) investments in board designated reserve funds, accounting for 31.8%. 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	
	2011	2010
Current and Other Assets	80,130,266	80,757,737
Capital Assets	<u>121,699,562</u>	<u>123,098,970</u>
<b>TOTAL ASSETS</b>	<b>201,829,828</b>	<b>203,856,707</b>
Long-Term Liabilities Outstanding	35,496,108	49,532,819
Landfill Closure and Post-Closure Costs (Current and Long-Term)	6,107,903	5,870,832
Other Liabilities	<u>21,490,710</u>	<u>17,951,488</u>
<b>TOTAL LIABILITIES</b>	<b>63,094,721</b>	<b>73,355,139</b>
Net Assets:		
Invested in Capital Assets, net of Related Debt	79,597,261	75,848,834
Restricted	7,589,354	7,806,939
Unrestricted	<u>51,548,492</u>	<u>46,845,795</u>
<b>TOTAL NET ASSETS</b>	<b>138,735,107</b>	<b>130,501,568</b>

The Authority has maintained a positive balance in net assets as indicated above. The Authority's net assets increased by \$8,233,539 during the year. Energy revenue increased by \$999,948 (8.8%) from the previous year due to a scheduled turbine outage which occurred in 2010 at the Waste-to-Energy (WTE) facility, and a 2.3% improvement in boiler availability in 2011. Included in Energy revenue is \$55,992 for the first year of revenue generated from a wind turbine project at the Frey Farm Landfill. Grant revenues decreased by \$1,539,379 due to the revenue received in 2010 associated with the wind turbine project. Total expenses decreased \$811,382, (1.7%) from the previous year. Operating expenses decreased by \$685, (excluding depreciation) due to costs associated with closure and post-closure for the Frey Farm Landfill which occurred in 2010 offset by increased expenses associated with the WTE facility. Support expenses decreased by \$1,010,324, (10.8% excluding depreciation) due to costs in 2010 associated with support of the wind turbine project.

	Change in Net Assets	
	2011	2010
Revenues:		
Tipping Fees	37,997,531	37,573,863
Energy	12,394,865	11,394,917
Transportation	1,466,994	1,401,779
Investment Earnings	2,013,009	1,697,921
Other Revenues	<u>2,343,962</u>	<u>3,655,675</u>
<b>TOTAL REVENUES</b>	<b>56,216,361</b>	<b>55,724,155</b>

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

### FINANCIAL ANALYSIS (Continued)

	<b>Change in Net Assets</b>	
	<b>2011</b>	<b>2010</b>
Expenses:		
Operating Expenses, Excluding Depreciation	29,644,602	29,645,287
Support Expenses, Excluding Depreciation	8,352,744	9,363,068
Depreciation Expense	8,026,182	7,592,435
Interest Expense	<u>1,959,294</u>	<u>2,193,414</u>
<b>TOTAL EXPENSES</b>	<b>47,982,822</b>	<b>48,794,204</b>
Increase in Net Assets	8,233,539	6,929,951
Net Assets - January	<u>130,501,568</u>	<u>123,571,617</u>
<b>NET ASSETS - DECEMBER 31</b>	<b>138,735,107</b>	<b>130,501,568</b>

### CAPITAL ASSETS, DEBT ADMINISTRATION & LONG TERM OBLIGATIONS

#### Capital Assets

The Authority's capital assets (net of depreciation) as of December 31, 2011, are \$121,699,562. During 2011, the Authority's capital investments included the following: \$3,969,000 in Landfill redevelopment costs, \$1,208,000 to purchase a property adjacent to the Transfer Station Complex, and \$458,000 in renovations to the administration office building. Depreciation expense for 2011 was \$8,026,182. A comparison of capital assets as of December 31, 2011 and December 31, 2010, is shown below.

	<b>Capital Assets</b>	
	<b>2011</b>	<b>2010</b>
Waste-to-Energy Facility	57,150,810	61,230,145
Landfill Facility	22,268,445	23,429,305
Transfer Station Facility	18,879,789	19,520,171
Support Facilities	6,319,809	6,500,941
Other Real Estate	5,451,026	4,500,531
Equipment	3,173,027	4,203,084
Administrative Building and Equipment	1,676,349	1,283,669
Construction in Progress	<u>6,780,307</u>	<u>2,431,124</u>
<b>TOTAL CAPITAL ASSETS</b>	<b>121,699,562</b>	<b>123,098,970</b>

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, DEBT ADMINISTRATION & LONG TERM OBLIGATIONS (Continued)**

#### **Debt Administration and Long Term Obligations**

At the end of December 31, 2011, the Authority had \$47,443,704 of outstanding bonds and other debt, a decrease of 17.5% from December 31, 2010. Total principal redemptions in 2011 were \$10,124,125. Existing Authority debt is scheduled to expire in 2015. 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 \$6,107,903 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 Waste-to-Energy (WTE) facility. In 2011, the System received 643,250 tons of waste. Of that total, 392,900 tons were processed at the WTE facility while the remaining 250,350 tons were deposited at the FFLF. The TS received 326,250 tons of waste and recyclable material which was transferred to the WTE facility, FFLF or several privately owned and operated recycling facilities. Overall, total tonnages for 2011 were 6.9% above 2010 totals. All three facilities met the expectations of the Authority for the purposes of availability and overall operating performance. The WTE facility generated 220.5M kWh of electricity which the Authority sold to Metropolitan Edison Company at an average price of \$.05532/kWh, generating revenue of \$12,189,276 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 61.2% of all waste received and accounted for 48.7% of total revenue in 2011 or \$27,356,493 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. Management plans to renew 5 year contracts with private waste haulers later in 2012 and is confident it will be successful. MSW tons generated in Lancaster County and delivered to the System remained flat in 2011 vs. 2010. During 2011 there was a positive growth of 2.5% in refuse tons delivered; however the majority of this growth was offset by continued weakness in construction/demolition deliveries which were 8.3% below 2010's tonnage. Management believes the construction/demolition portion of the waste stream has been slower to rebound from the weakened economic conditions experienced over the last few years. The remaining waste received into the Authority System is residual waste which accounted for 37.0% of waste tonnage in 2011. Residual waste accounted for \$10,450,291 in revenue which was 18.6% of total revenue for the year and 27.5% 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 10% of the total residual waste business.

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

### **BUSINESS OUTLOOK (Continued)**

#### **Revenue (Continued)**

In 2011, \$12,189,276 in electric revenue generated from the WTE facility comprised 21.7% of total revenue. Electricity is sold pursuant to an electric sales agreement that expires on February 1, 2016. Grant revenue decreased in 2011 due to the Authority receiving \$1,500,000 in 2010 of 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.

#### **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 2012 is \$5,491,800. Planned capital spending during 2012 includes \$2,330,000 of expenses for a large soil excavation project, PPL tower relocation of \$1,213,500 at the landfill facilities, and \$580,000 for continued consulting work related to the Frey Farm vertical expansion project. An additional \$400,000 of capital expenditures is associated with a gas line/boiler retrofit at the WTE facility associated with the development of a soybean crushing facility to be built by Perdue Grain & Oilseed, LLC (Perdue) on land presently owned by LCSWMA and adjacent to the WTE facility. Various Authority site improvement projects are budgeted at \$520,000 in 2012. In addition two sales of real estate are budgeted, the first to Perdue for \$2,478,000 to purchase 57 acres of land adjacent to the WTE facility. The second sale is to the Lancaster Conservancy for \$490,000 for real estate at 821 Farmingdale Road, Lancaster, PA.

### **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](mailto:info@lcswma.org).

# Lancaster County Solid Waste Management Authority

## COMPARATIVE STATEMENTS of NET ASSETS

December 31, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 4,315,593	\$ 6,716,432
Investments	42,199,020	36,896,749
Accounts Receivable, net of Provision for Bad Debts of \$10,000 at 2011 and 2010	7,226,618	5,257,757
Grants Receivable	-0-	150,000
Note Receivable, Current Portion	429,985	464,458
Interest Receivable	309,721	371,263
Inventory	9,161	14,633
Other Current Assets (Note 3)	480,306	451,735
	<hr/>	<hr/>
<b>Total Current Assets</b>	<b>54,970,404</b>	<b>50,323,027</b>
<b>RESTRICTED ASSETS</b>		
Investments with Trustee (Note 4)	6,222,749	11,723,313
Interest Receivable	3,543	4,289
	<hr/>	<hr/>
Total Restricted Assets with Trustee	6,226,292	11,727,602
Closure and Post-Closure Care Funds	13,697,257	13,677,771
	<hr/>	<hr/>
<b>Total Restricted Assets</b>	<b>19,923,549</b>	<b>25,405,373</b>
<b>OTHER ASSETS</b>		
Notes Receivable, net of Current Portion (Note 5)	5,000,364	4,650,000
Deferred Charges, net of Amortization of \$490,290 at 2011 and \$255,453 at 2010	235,949	379,337
	<hr/>	<hr/>
<b>Total Other Assets</b>	<b>5,236,313</b>	<b>5,029,337</b>
<b>REAL ESTATE, FACILITIES, and EQUIPMENT (Note 6)</b>		
Waste-to-Energy Facility	139,681,675	139,670,634
Landfill Facility	77,119,466	77,018,921
Transfer Station Facility	21,936,420	21,868,484
Equipment	12,797,823	13,027,808
Support Facilities	7,566,562	7,530,692
Other Real Estate	5,727,036	4,721,554
Administrative Building and Equipment	3,526,708	2,948,358
	<hr/>	<hr/>
	268,355,690	266,786,451
Depreciation to Date	(153,436,435)	(146,118,605)
	<hr/>	<hr/>
Net Depreciable Assets	114,919,255	120,667,846
Construction in Progress (Note 7)	6,780,307	2,431,124
	<hr/>	<hr/>
<b>Net Real Estate, Facilities, and Equipment</b>	<b>121,699,562</b>	<b>123,098,970</b>
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 201,829,828</b>	<b>\$ 203,856,707</b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## COMPARATIVE STATEMENTS of NET ASSETS

(Continued)

December 31, 2011 and 2010

	2011	2010
<b>LIABILITIES and NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt (Note 13)	\$ 13,460,000	\$ 10,124,125
Current Portion of Estimated Post-Closure Care Costs - Creswell	139,000	146,000
Accounts Payable - Trade	5,220,688	4,037,103
Other Current Liabilities (Note 9)	742,657	1,646,631
Accrued Expenses (Note 10)	1,970,883	2,034,263
Accrued Interest Payable (Note 11)	96,482	109,366
	<u>21,629,710</u>	<u>18,097,488</u>
<b>Total Current Liabilities</b>	<b>21,629,710</b>	<b>18,097,488</b>
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt, net of Current Portion (Note 13)	33,983,704	47,398,055
Estimated Post-Closure Care Costs - Creswell	1,111,000	1,313,000
Estimated Closure and Post-Closure Care Costs - Frey Farm	4,857,903	4,411,832
Other Long-Term Liabilities (Note 14)	1,512,404	2,134,764
	<u>41,465,011</u>	<u>55,257,651</u>
<b>Total Long-Term Liabilities</b>	<b>41,465,011</b>	<b>55,257,651</b>
<b>TOTAL LIABILITIES</b>	<b><u>63,094,721</u></b>	<b><u>73,355,139</u></b>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of Related Debt	79,597,261	75,848,834
Restricted for Landfill Closure and Post-Closure Costs	7,589,354	7,806,939
Unrestricted (Note 15)	51,548,492	46,845,795
	<u>138,735,107</u>	<u>130,501,568</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 138,735,107</u></b>	<b><u>\$ 130,501,568</u></b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET ASSETS

Years Ended December 31, 2011 and 2010

	<b>2011</b>	<b>2010</b>
<b>OPERATING REVENUES</b>		
Tipping Fees	\$ 37,997,531	\$ 37,573,863
Energy	12,394,865	11,394,917
Transportation	1,466,994	1,401,779
Other	1,995,853	1,707,433
<b>Total Operating Revenues</b>	<b>53,855,243</b>	<b>52,077,992</b>
<b>OPERATING EXPENSES</b>		
Waste-to-Energy Facility	21,595,882	20,279,451
Landfill	3,680,598	3,647,511
Transfer Station Complex	3,124,080	2,959,194
Household Hazardous Waste	280,577	321,515
General and Administrative	595,860	603,893
Closure and Post-Closure Care - Frey Farm	446,071	1,758,088
Post-Closure Care - Creswell	(78,466)	75,635
Depreciation and Amortization	7,944,542	7,523,662
<b>Total Operating Expenses</b>	<b>37,589,144</b>	<b>37,168,949</b>
<b>SUPPORT EXPENSES</b>		
General and Administrative	8,352,744	9,363,068
Depreciation	81,640	68,773
<b>Total Support Expenses</b>	<b>8,434,384</b>	<b>9,431,841</b>
<b>Total Operating and Support Expenses</b>	<b>46,023,528</b>	<b>46,600,790</b>
<b>OPERATING INCOME</b>	<b>7,831,715</b>	<b>5,477,202</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Grant Revenues	175,208	1,714,587
Loss on Sale of Assets	(113,047)	(11,081)
Miscellaneous	285,948	244,736
Interest and Investment Earnings	2,013,009	1,697,921
Interest Expense	(1,959,294)	(2,193,414)
<b>Net Non-Operating Revenues</b>	<b>401,824</b>	<b>1,452,749</b>
<b>CHANGES in NET ASSETS</b>	<b>8,233,539</b>	<b>6,929,951</b>
<b>NET ASSETS</b>		
Beginning of Year	130,501,568	123,571,617
<b>End of Year</b>	<b>\$ 138,735,107</b>	<b>\$ 130,501,568</b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## STATEMENTS of CASH FLOWS

Years Ended December 31, 2011 and 2010

	2011	2010
<b>CASH FLOWS from OPERATING ACTIVITIES</b>		
Receipts from Customers and Users	\$ 52,252,706	\$ 52,117,115
Payments to Suppliers	(32,224,279)	(31,885,352)
Payments to Employees	<u>(4,347,193)</u>	<u>(4,190,892)</u>
<b>Net Cash Provided by Operating Activities</b>	<b>15,681,234</b>	<b>16,040,871</b>
<b>CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES</b>		
State and Local Grant Income	<b>325,208</b>	<b>1,564,587</b>
<b>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</b>		
Interest Paid	(2,497,198)	(2,718,786)
Principal Payments	(10,124,125)	(9,899,125)
Payments for Capital Acquisitions	(7,226,472)	(5,841,104)
Payments for Arbitrage Liabilities	(980,898)	-0-
Proceeds from Sale of Capital Assets	<u>483,199</u>	<u>131,215</u>
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(20,345,494)</b>	<b>(18,327,800)</b>
<b>CASH FLOWS from INVESTING ACTIVITIES</b>		
Issuance of Note Receivable	(350,364)	(4,650,000)
Payments Received on Notes Receivable	34,473	6,342
Sales of Restricted Investments	51,999,653	57,154,895
Purchases of Restricted Investments	(46,049,568)	(51,843,690)
Receipts of Interest	1,765,162	1,874,509
Sales of Unrestricted Investments	21,826,565	38,063,001
Purchases of Unrestricted Investments	<u>(27,287,708)</u>	<u>(36,420,933)</u>
<b>Net Cash Provided by Investing Activities</b>	<b><u>1,938,213</u></b>	<b><u>4,184,124</u></b>
<b>INCREASE (DECREASE) in CASH and CASH EQUIVALENTS</b>	<b>(2,400,839)</b>	<b>3,461,782</b>
<b>CASH and CASH EQUIVALENTS</b>		
Beginning	<u>6,716,432</u>	<u>3,254,650</u>
Ending	<b><u>\$ 4,315,593</u></b>	<b><u>\$ 6,716,432</u></b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## STATEMENTS of CASH FLOWS

(Continued)

Years Ended December 31, 2011 and 2010

	2011	2010
<b>RECONCILIATION of OPERATING INCOME</b>		
<b>to NET CASH PROVIDED by OPERATING ACTIVITIES</b>		
Operating Income	\$ 7,831,715	\$ 5,477,202
<b>ADJUSTMENTS to RECONCILE OPERATING INCOME</b>		
<b>to NET CASH PROVIDED by OPERATING ACTIVITIES</b>		
Depreciation	8,026,182	7,592,435
Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Assets Included for Cash Flow	289,400	317,761
(Increase) Decrease in:		
Accounts Receivable	(1,968,861)	(275,186)
Inventory and Other Current Assets	(23,099)	469,769
Increase (Decrease) in:		
Current Liabilities	1,288,826	1,236,183
Estimated Closure and Post-Closure Care Costs - Creswell and Frey Farm	<u>237,071</u>	<u>1,222,707</u>
<b>Total Adjustments</b>	<b><u>7,849,519</u></b>	<b><u>10,563,669</u></b>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 15,681,234</u></b>	<b><u>\$ 16,040,871</u></b>

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 waste-to-energy 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.

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.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

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

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

#### Basis of Accounting

**The Lancaster County Solid Waste Management Authority** operates as 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.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Basis of Accounting (Continued)

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.

#### 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.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

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

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, 2011 and 2010, was \$8,026,182 and \$7,592,435, respectively.

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites. These costs totaled \$6,780,307 and \$2,431,124 at December 31, 2011 and 2010, 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, depreciation of fixed assets, and the obligation for other postemployment benefits. Accordingly, actual results may differ from estimated amounts.

#### Net Assets

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

### NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

Pennsylvania statutes provide for investment of Authority funds into certain authorized investment types including U.S. Treasury bills, 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.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### 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, 2011, \$2,147,155 of the Authority's bank balance of \$11,404,219 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>2,147,155</u>
	<b>2,147,155</b>

#### Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	2,147,155
Plus: Insured Amount	<u>9,257,064</u>
Bank Balance	11,404,219
Deposits in Transit	9,331
Outstanding Checks	<u>(336,714)</u>
Carrying Amount - Bank Balances	11,076,836
Petty Cash	3,150
Money Market Funds	2,117,832
Certificates of Deposit	<u>(8,882,225)</u>
<b>Total Cash and Cash Equivalents Per Financial Statements</b>	<b>4,315,593</b>

#### Investments

As of December 31, 2011, the Authority had the following investments:

Investments	Maturity	Fair Value
Federal Farm Credit Banks Bond	<1 Year	175,690
Federal Farm Credit Banks Bond	1-5 Years	2,293,446
Federal Home Loan Bank Bond	<1 Year	1,852,805
Federal Home Loan Bank Bond	1-5 Years	3,668,548
Federal Home Loan Bank Bond	6-10 Years	458,940
Federal Home Loan Mortgage Corporation REMIC	1-5 Years	8,380
Federal Home Loan Mortgage Corporation Pool	1-5 Years	8,774
Federal Home Loan Mortgage Corporation Pool	10+ Years	2,767,770
Federal Home Loan Mortgage Corporation Bond	<1 Year	2,801,166
Federal Home Loan Mortgage Corporation Bond	1-5 Years	4,151,633
Federal Home Loan Mortgage Corporation Bond	10+ Years	1,202,138
Federal National Mortgage Association Bond	<1 Year	851,637
Federal National Mortgage Association Bond	1-5 Years	4,643,981
Federal National Mortgage Association Pool	6-10 Years	590,628
Federal National Mortgage Association Pool	10+ Years	4,768,058
Federal National Mortgage Association Bond	<1 Year	309,789
Federal National Mortgage Association Bond	1-5 Years	1,771,856
Federal National Mortgage Association Bond	10+ Years	686,551

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

Freddie Mac Bond	<1 Year	277,206
Government National Mortgage Association Bond	10+ Years	500,919
International Bank for Reconstruction and Development Federal Coupon Strips	<1 Year	243,841
International Bank for Reconstruction and Development Coupon	1-5 Years	781,184
Tax Exempt Municipal Bonds	<1 Year	2,022,867
Tax Exempt Municipal Bonds	1-5 Years	604,458
United States Treasury Notes	<1 Year	3,122,322
United States Treasury Notes	1-5 Years	9,410,068
United States Treasury Notes	6-10 Years	2,892,539
Goldman Sachs Financial Square Treasury Obligation Money Market Fund	<1 Year	620,971
RBC Select U. S. Government Money Market Fund	N/A	1,037,888
Wells Fargo Advantage Government Money Market Fund	N/A	797,580
Raffles Insurance, Ltd. - Redeemable Preference Share	N/A	30,900
Raffles Insurance, Ltd. - Common Share	N/A	100
		<b>55,354,633</b>

#### 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, 2011, the Authority's investments were rated as:

Investments	Standard & Poor's
Federal Farm Credit Banks Bond	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 Bond	AAA
Federal National Mortgage Association Bond	AAA
Federal National Mortgage Association Pool	N/A
Freddie Mac Bond	AAA
Government National Mortgage Association	N/A
International Bank for Reconstruction & Development Coupon	N/A
International Bank for Reconstruction & Development Federal Coupon Strips	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

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### 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 National Mortgage Association obligations, Federal Home Loan Mortgage Corporation obligations, and Federal Home Loan Bank obligations. These investments are 24.6%, 19.8% and 10.8% 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, 2011, none of the Authority's investments were exposed to custodial credit risk.

#### Reconciliation of Investments to Financial Statements

Total Investments Per Notes	55,354,633
Less: Money Market Funds	(2,117,832)
Add: Certificates of Deposit	<u>8,882,225</u>
<b>Total Investments per Financial Statements</b>	<b>62,119,026</b>

### NOTE 3 - OTHER CURRENT ASSETS

Balances consisted of the following at December 31, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Prepaid Insurance	314,774	305,295
Other Prepaid Expenses	<u>165,532</u>	<u>146,440</u>
	<b>480,306</b>	<b>451,735</b>

### 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, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Project Funds	-0-	4,744,699
Debt Service Reserve Funds	6,222,749	6,199,054
Arbitrage Rebate Funds	<u>-0-</u>	<u>779,560</u>
<b>Investments with Trustee</b>	<b>6,222,749</b>	<b>11,723,313</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### 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 was originally due in December 2011, but was extended until December 31, 2012.

#### **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.

#### **Note Receivable from MP2 Capital, LLC**

During the year ended December 31, 2011, the Authority entered into Solar Power Purchase Agreements and Leases with MP2 Capital, LLC (MP2). Pursuant to the terms of these agreements, MP2 will install solar projects at the Authority's transfer station facility and is granted a leasehold improvement interest thereon. The Authority has also agreed to provide MP2 with partial financing for the project, in amounts not to exceed \$2,490,284 in the aggregate, in the form of improvement loans. The notes bear interest at 4.25% until the 5<sup>th</sup> anniversary of the commercial operation date of the project, and 2% thereafter. Interest only is due on the notes until the commercial operation date, with principal and interest due thereafter, in equal installments sufficient to amortize the notes over 15 years. At December 31, 2011, the Authority had advanced \$350,364 to MP2 under the improvement loans.

MP2 will pay to the Authority rentals totaling \$6,819 per quarter. The Authority has committed to purchase all of the solar output of the project during the purchase term, as defined in the agreement. The Authority has the option to purchase the solar projects on the fifth anniversary of the commercial operation date, and every two years thereafter, for predefined values net of the notes receivable balances.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 5 - NOTES RECEIVABLE (Continued)

Notes receivable balances at December 31, 2011 and 2010 are summarized as follows:

	December 31, 2011		
	Current Portion	Long-Term Portion	Total
Mortgage Note Receivable	429,985	-0-	429,985
Note Receivable from PPLRE	-0-	4,650,000	4,650,000
Notes Receivable from MP2 Capital, LLC	<u>-0-</u>	<u>350,364</u>	<u>350,364</u>
	<b>429,985</b>	<b>5,000,364</b>	<b>5,430,349</b>

	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>
	<b>464,458</b>	<b>4,650,000</b>	<b>5,114,458</b>

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

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

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Capital Assets not Being Depreciated:				
Land and Improvements	20,198,705			20,198,705
Construction in Progress	<u>2,431,124</u>	<u>4,349,183</u>	<u>        </u>	<u>6,780,307</u>
<b>Total Capital Assets not Being Depreciated</b>	<b>22,629,829</b>	<b>4,349,183</b>	<b>-0-</b>	<b>26,979,012</b>
Capital Assets Being Depreciated:				
Waste-to-Energy Facility	137,266,875	36,364	(25,000)	137,278,239
Accumulated Depreciation	(78,440,169)	(4,090,703)		(82,530,872)
Landfill Facility	60,142,509	100,870	(650)	60,242,729
Accumulated Depreciation	(53,589,942)	(1,261,076)		(54,851,018)
Transfer Station Facility	21,845,079	67,937		21,913,016
Accumulated Depreciation	(2,348,312)	(708,319)		(3,056,631)

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 6 - REAL ESTATE, FACILITIES, and EQUIPMENT - CAPITAL ASSETS (Continued)

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Equipment	13,027,808	683,371	(913,356)	12,797,823
Accumulated Depreciation	(8,824,722)	(1,511,877)	711,806	(9,624,793)
Support Facilities	7,530,692	35,870		7,566,562
Accumulated Depreciation	(1,029,750)	(217,002)		(1,246,752)
Other Real Estate	3,909,425	1,374,531	(369,049)	4,914,907
Accumulated Depreciation	(221,020)	(54,989)		(276,009)
Administrative Building and Equipment	2,865,358	578,351		3,443,709
Accumulated Depreciation	<u>(1,664,690)</u>	<u>(185,670)</u>	<u>          </u>	<u>(1,850,360)</u>
<b>Capital Assets Being Depreciated, net</b>	<b><u>100,469,141</u></b>	<b><u>(5,152,342)</u></b>	<b><u>(596,249)</u></b>	<b><u>94,720,550</u></b>
<b>Capital Assets, net</b>	<b>123,098,970</b>	<b>(803,159)</b>	<b>(596,249)</b>	<b>121,699,562</b>

### NOTE 7 - CONSTRUCTION in PROGRESS

The Authority has uncompleted construction projects shown as follows:

	Balance January 1, 2011	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2011
Landfill	2,395,243	4,379,261	-0-	6,774,504
Transfer Station	-0-	1,313	-0-	1,313
Waste-to-Energy Facility	-0-	4,490	-0-	4,490
Administrative Building	<u>35,881</u>	<u>-0-</u>	<u>35,881</u>	<u>-0-</u>
	<b>2,431,124</b>	<b>4,385,064</b>	<b>35,881</b>	<b>6,780,307</b>

Construction in progress relates to future landfill development and improvements to various facilities.

### 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.

**Lancaster County Solid Waste Management Authority**

NOTES to FINANCIAL STATEMENTS

(Continued)

**NOTE 8 - OTHER ASSETS, REAL ESTATE PURCHASES, and SALE COMMITMENTS (Continued)**

To date, the Authority has purchased thirteen of the forty-seven properties at a cost of \$3,936,886. The Authority estimates that the current fair market value of the remaining thirty-four properties, determined without regard to the Authority's facilities and activities, is \$4,459,050. The Authority has resold six of the thirteen properties, net of costs, for \$1,172,215. Those six properties were purchased by the Authority for \$1,313,100, 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, 2011.

In September 2011, the Authority entered into an option agreement to sell real estate to Perdue Grain & Oilseed, LLC (Perdue). In consideration of the payment of \$25,000, the Authority, subject to provisions contained in the agreement, granted to Perdue the right to purchase approximately 57 acres of land adjacent to the Authority's Waste-to-Energy Facility. The option period begins on September 20, 2011 and expires March 20, 2013. The exercise of the option is subject to certain pre-conditions and approvals. The option, if timely exercised, allows Perdue to acquire the 57 acres for \$2,478,000, for which the Authority would provide ten-year financing at 6.0% annual interest.

**NOTE 9 - OTHER CURRENT LIABILITIES**

Balances consisted of the following at December 31, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Prepaid Disposal Fees	742,657	665,733
Arbitrage Obligation	<u>-0-</u>	<u>980,898</u>
	<b>742,657</b>	<b>1,646,631</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 10 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2011 and 2010:

	2011	2010
Accrued Host Fees	217,364	282,588
Accrued DER Recycling Fees	431,618	459,492
Accrued County Closure Fee	24,367	18,931
Accrued Haulers Rebate	839,292	861,748
Accrued Prepaid Rebate	41,510	42,852
Accrued Payroll	293,148	271,608
Payroll Taxes and Pension Plan		
Accrued and Withheld	46,244	41,705
Miscellaneous Accruals	<u>77,340</u>	<u>55,339</u>
	<b>1,970,883</b>	<b>2,034,263</b>

### 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.

### 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 \$3,934,326 and \$3,937,474 at December 31, 2011 and 2010, 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, 2011, the Authority received reimbursement from the fund for various claims totaling \$92,547.

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, 2011, 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.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 13 - LONG-TERM DEBT

Long-term debt at December 31, 2011, 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.

#### **\$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.

#### **\$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, 2011:

	2005 Note	2006 Series	2009 B Series	Total
Principal Amount Due	4,445,000	30,620,000	12,410,000	47,475,000
Less: Current Portion	<u>1,050,000</u>	<u>-0-</u>	<u>12,410,000</u>	<u>13,460,000</u>
Long-Term Principal Due	3,395,000	30,620,000	-0-	34,015,000
Deferred Refunding Costs	<u>-0-</u>	<u>-0-</u>	<u>(31,296)</u>	<u>(31,296)</u>
	<b>3,395,000</b>	<b>30,620,000</b>	<b>(31,296)</b>	<b>33,983,704</b>

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, 2011:

Debt Outstanding - January 1, 2011	57,599,125
New Debt Issuance	-0-
Repayments	<u>(10,124,125)</u>
Debt Outstanding - December 31, 2011	<b>47,475,000</b>

The annual debt service requirements for all outstanding debt as of December 31, 2011, are as follows:

Year	Principal	Interest	Total
2012	13,460,000	2,202,158	15,662,158
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>
	<b>47,475,000</b>	<b>5,289,387</b>	<b>52,764,387</b>

# 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, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Net Other Postemployment Benefit (OPEB) Obligation	255,466	215,873
Nonqualified Deferred Compensation Plan Obligation	136,100	83,996
Original Issue Premium, net of Amortization of \$1,453,176 at December 31, 2011 and \$1,171,613 at December 31, 2010	<u>1,120,838</u>	<u>1,834,895</u>
	<b><u>1,512,404</u></b>	<b><u>2,134,764</u></b>

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 Reserve 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, 2011 and 2010, the balance of unrestricted net assets are as follows:

	<b>2011</b>	<b>2010</b>
Board Designated Unrestricted Net Assets:		
Construction Reserve Fund:		
Cash and Cash Equivalents	1,037,888	2,207,203
Investments	<u>11,085,104</u>	<u>7,501,201</u>
	<b><u>12,122,992</u></b>	<b><u>9,708,404</u></b>
Revenue Reserve Fund:		
Cash and Cash Equivalents	37,660	11,387
Investments	<u>7,903,103</u>	<u>7,774,602</u>
	<b><u>7,940,763</u></b>	<b><u>7,785,989</u></b>
Capital Reserve Fund:		
Cash and Cash Equivalents	1,012,974	1,162,725
Investments	<u>22,972,113</u>	<u>21,285,504</u>
	<b><u>23,985,087</u></b>	<b><u>22,448,229</u></b>
<b>Total Board Designated Unrestricted Net Assets</b>	<b><u>44,048,842</u></b>	<b><u>39,942,622</u></b>
Undesignated Unrestricted Net Assets	<u>7,499,650</u>	<u>6,903,173</u>
<b>Total Unrestricted Net Assets</b>	<b><u>51,548,492</u></b>	<b><u>46,845,795</u></b>

# 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, 2011 and 2010, were \$475,938 and \$452,689, 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, 2011 and 2010, were \$272,336 and \$258,235, 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 \$255,466 and \$215,873 at December 31, 2011 and 2010, 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 (\$637 and \$624 per year in 2011 and 2010, respectively) 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.

#### Funding Policy

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

**Lancaster County Solid Waste Management Authority**

NOTES to FINANCIAL STATEMENTS

(Continued)

**NOTE 17 - POST RETIREMENT HEALTH CARE BENEFITS (Continued)**

**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, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Annual Required Contribution	132,302	132,170
Interest on Net OPEB Obligation	8,635	6,767
Adjustment to Annual Required Contribution	<u>(21,587)</u>	<u>(16,917)</u>
Annual OPEB Cost	119,350	122,020
Contributions Made	<u>79,757</u>	<u>75,312</u>
Increase in Net OPEB Obligation	39,593	46,708
Net OPEB Obligation - Beginning of Year	<u>215,873</u>	<u>169,165</u>
Net OPEB Obligation - End of Year	<b>255,466</b>	<b>215,873</b>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the new OPEB obligation for 2009, 2010, and 2011, were as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation - End of Year</b>
12/31/2009	133,371	24%	169,165
12/31/2010	122,020	62%	215,873
12/31/2011	119,350	67%	255,466

**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%.

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.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 17 - POST RETIREMENT HEALTH CARE BENEFITS (Continued)**

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 waste-to-energy facility. The facility achieved Acceptance on May 10, 1991.

The Authority and Covanta Lancaster entered into a separate service agreement (the "Service Agreement") whereby Covanta Lancaster is obligated to operate and maintain the waste-to-energy 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 waste-to-energy 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.

# 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 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 waste-to-energy 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, 2011 and 2010.

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, 2011, the Authority has estimated the future closure and post-closure care costs to be \$11,806,092. 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 68% and 65% of the Landfill capacity being used at December 31, 2011 and 2010, respectively. The estimate of the future costs is subject to change for inflation, deflation, changes in technology and federal, state, and local regulations.

The components of closure and post-closure care expense (income) in 2011 and 2010 are as follows:

	2011	2010
Closure and Post-Closure Care - Frey Farm		
Net Increase in Estimate of Closure and Post-Closure Care Liability	446,071	1,758,088
Closure and Post-Closure Care - Creswell		
Difference Between Actual and Estimated Costs - Current Year	(26,566)	(9,753)
Net Increase(Decrease) in Estimate of Closure and Post-Closure Care Liability	<u>(63,000)</u> <b>(89,566)</b>	<u>57,000</u> <b>47,247</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 18 - COMMITMENTS and CONTINGENCIES (Continued)

#### 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, and to the Pennsylvania Department of Transportation in connection with a roadway repaving project. The letters of credit issued totaled \$13,045,006 and are secured by deposits of \$13,697,257 (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:

Sites	Amount to be Pledged	Collateral Bonds Pledged at December 31, 2011
Frey Farm	9,136,899	9,136,899
Creswell	3,102,764	3,102,764
Waste-to-Energy Facility	498,921	498,921
Transfer Station	94,396	94,396
Liquid Treatment Facility	<u>36,179</u>	<u>36,179</u>
Total Closure Collateral	12,869,159	12,869,159
Roadway Repaving Project	1,392	1,392
Captive Insurance Premium	<u>174,455</u>	<u>174,455</u>
	<b>13,045,006</b>	<b>13,045,006</b>

#### 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.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 18 - COMMITMENTS and CONTINGENCIES (Continued)**

#### **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 a construction contract commitment outstanding at December 31, 2011, of \$1,891,314 related to the soil borrow project at Frey Farm Landfill.

#### **Other Commitments**

The Authority has a binding commitment to provide 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 Waste-to-Energy Facility. The amount of the donation is equal to an escalating rate per ton of waste processed at the Facility each year. In 2011, the Authority donated \$31,562 to the Bainbridge Fire Company pursuant to this commitment. The Authority estimates that the remaining donations over the term of the agreement will be \$536,400.

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. The Authority provided \$62,675 and \$59,121 to the Susquehanna Heritage Corporation during the years ended December 31, 2011 and 2010, respectively. The Authority estimates that its remaining obligation under the agreement is \$180,000.

#### **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.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 18 - COMMITMENTS and CONTINGENCIES (Continued)

#### Unconditional Purchase Obligation

In connection with the Solar Power Purchase Agreements and Leases with MP2 Capital, LLC (MP2) discussed in Note 5, the Authority has committed to purchase the entire energy output produced by the solar project, at prices specified in the agreements, commencing on the commercial operation date of the project and continuing for twenty years. Based upon estimates of the annual production of the projects, and purchase prices ranging from \$0.040 to \$0.225 per kWh as specified in the agreements, the Authority estimates that its future obligation under these agreements is as follows:

	Purchase Obligation	Termination Fee
2012	26,428	3,557,548
2013	27,089	3,344,095
2014	27,750	3,130,642
2015	29,071	2,917,189
2016	29,732	2,703,736
2017 - 2021	479,010	2,490,284 - 1,897,277
2022 - 2026	611,150	1,741,482 - 1,086,270
2027 - 2031	<u>743,290</u>	914,133 - 190,194
	<b>1,973,520</b>	

Actual results may differ from these estimates if the actual annual energy production of the projects differs from the estimated annual energy production. The Authority may terminate the agreement upon six months' written notice and payment of the termination fee above, net of the unpaid balance of the improvement loans discussed in Note 5. At the end of the fifth year following the commercial operation date, and every two years thereafter, the Authority also has the option to purchase the solar project at prices specified in the agreements, net of the unpaid balance of the improvement loans.

### NOTE 19 - MAJOR CUSTOMERS

Tipping fee revenues include transactions with major customers (customers whose sales comprise 10% or more of total tipping fees) as follows for the years ended December 31, 2011 and 2010:

	2011		2010	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer A	4,917,912	805,402	4,862,969	404,166
Customer B	4,799,905	376,423	5,161,595	399,697
Customer C	3,892,530	640,436	3,844,656	641,093

**Lancaster County Solid Waste Management Authority**

NOTES to FINANCIAL STATEMENTS

(Continued)

**NOTE 19 - MAJOR CUSTOMERS (Continued)**

Energy revenues include transactions with a major customer as follows for the years ended December 31, 2011 and 2010:

	2011		2010	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer D	12,189,276	2,260,748	11,339,980	1,127,828

**NOTE 20 - 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

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>
01/01/2008	-0-	591,742	591,742	0.0%
01/01/2009	-0-	823,979	823,979	0.0%

See auditors' report.

**INDEPENDENT AUDITORS' REPORT on SUPPLEMENTARY INFORMATION**

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

We have audited the financial statements of **Lancaster County Solid Waste Management Authority** as of December 31, 2011 and 2010, and for the years then ended, and have issued our unqualified opinion thereon dated February 28, 2012. We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of **Lancaster County Solid Waste Management Authority** as of and for the years ended December 31, 2009, 2008, and 2007. In our reports dated February 9, 2010, February 12, 2009, February 13, 2008, respectively, we expressed unqualified opinions on those financial statements. Our audits were performed for the purpose of forming opinions on the financial statements as a whole. The schedules of condensed revenues and expenses on page 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 supplementary information on page 37 is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

*Trout, Ebersole & Groff, LLP*

February 28, 2012  
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

# Lancaster County Solid Waste Management Authority

## SCHEDULES of CONDENSED REVENUES and EXPENSES

Years Ended December 31, 2011, 2010, 2009, 2008, and 2007

	2011	2010	2009	2008	2007
<b>OPERATING REVENUES</b>					
Tipping Fees	\$ 37,997,531	\$ 37,573,863	\$ 39,011,626	\$ 37,561,399	\$ 36,389,540
Energy	12,394,865	11,394,917	11,800,032	11,992,187	10,749,990
Transportation and Other	<u>3,462,847</u>	<u>3,109,212</u>	<u>2,427,435</u>	<u>3,268,433</u>	<u>2,393,644</u>
<b>Total Operating Revenues</b>	<b>53,855,243</b>	<b>52,077,992</b>	<b>53,239,093</b>	<b>52,822,019</b>	<b>49,533,174</b>
<b>OPERATING EXPENSES</b>					
Waste-to-Energy Facility	21,595,882	20,279,451	20,030,157	19,817,699	18,602,166
Landfill	3,680,598	3,647,511	3,805,605	3,686,341	3,782,407
Transfer Station Complex	3,124,080	2,959,194	2,576,822	3,033,509	3,104,829
Household Hazardous Waste	280,577	321,515	274,531	223,429	208,738
General and Administrative	595,860	603,893	595,831	592,712	709,986
Closure and Post-Closure Care	367,605	1,833,723	(390,553)	508,774	1,026,746
Depreciation and Amortization	<u>7,944,542</u>	<u>7,523,662</u>	<u>7,803,536</u>	<u>8,479,317</u>	<u>7,570,493</u>
<b>Total Operating Expenses</b>	<b>37,589,144</b>	<b>37,168,949</b>	<b>34,695,929</b>	<b>36,341,781</b>	<b>35,005,365</b>
<b>SUPPORT EXPENSES</b>	<u><b>8,434,384</b></u>	<u><b>9,431,841</b></u>	<u><b>7,835,808</b></u>	<u><b>7,441,527</b></u>	<u><b>7,368,382</b></u>
<b>Total Operating and Support Expenses</b>	<u><b>46,023,528</b></u>	<u><b>46,600,790</b></u>	<u><b>42,531,737</b></u>	<u><b>43,783,308</b></u>	<u><b>42,373,747</b></u>
<b>OPERATING INCOME</b>	<b>7,831,715</b>	<b>5,477,202</b>	<b>10,707,356</b>	<b>9,038,711</b>	<b>7,159,427</b>
<b>NET NON-OPERATING REVENUES</b>	<b>348,109</b>	<b>1,948,242</b>	<b>3,711,550</b>	<b>332,220</b>	<b>692,447</b>
<b>INTEREST AND INVESTMENT EARNINGS</b>	<b>2,013,009</b>	<b>1,697,921</b>	<b>1,665,361</b>	<b>5,240,835</b>	<b>5,482,660</b>
<b>INTEREST EXPENSE</b>	<u><b>(1,959,294)</b></u>	<u><b>(2,193,414)</b></u>	<u><b>(5,512,186)</b></u>	<u><b>(5,461,700)</b></u>	<u><b>(5,852,143)</b></u>
<b>CHANGES in NET ASSETS</b>	<u><u><b>\$ 8,233,539</b></u></u>	<u><u><b>\$ 6,929,951</b></u></u>	<u><u><b>\$ 10,572,081</b></u></u>	<u><u><b>\$ 9,150,066</b></u></u>	<u><u><b>\$ 7,482,391</b></u></u>

See independent auditors' report on supplementary information.