

Lancaster County Solid Waste Management Authority

Years Ended December 31, 2012 and 2011



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Lancaster County Solid Waste Management Authority

Lancaster, Pennsylvania

Years Ended December 31, 2012 and 2011

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Lancaster County Solid Waste Management Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2012 and 2011

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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 financial statements of **Lancaster County Solid Waste Management Authority**, which comprise the statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Lancaster County Solid Waste Management Authority** as of December 31, 2012 and 2011, 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.

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Other Matters

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.

February 22, 2013
Lancaster, Pennsylvania



TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

Management of the **Lancaster County Solid Waste Management Authority** (the Authority), issues the following narrative and analysis to assist the reader in understanding financial activities of the Authority for the fiscal year ended December 31, 2012.

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 position presents information on the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position presents information showing how the Authority's net position 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 decreased by \$4,057,964. This is mainly due to funding the capital expenditures in 2012 with the Capital and Construction Reserves. Total liabilities decreased by \$10,623,840 as a result of the principal payment on the Authority debt. The Authority's revenues exceeded its expenses by \$6,565,876 which resulted in an increase to total net position for 2012.

The assets of the Authority exceeded its liabilities at the close of the 2012 fiscal year by \$145,300,983 (net position). Of this amount, \$89,044,964 is invested in capital assets and \$8,047,803 is restricted for landfill closure and post-closure monitoring costs. Unrestricted net position totals \$48,208,216 of which \$39,517,294 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 2012 fiscal year by \$145,300,983. There are two major components of the Authority's net position: 1) investments in capital assets, accounting for 61.3%, and 2) investments in board designated reserve funds, accounting for 27.2%. 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 Position	
	2012	2011
Current and Other Assets	74,715,900	80,105,266
Capital Assets	<u>123,055,964</u>	<u>121,724,562</u>
TOTAL ASSETS	197,771,864	201,829,828
Long-Term Liabilities Outstanding	23,117,885	35,496,108
Landfill Closure and Post-Closure Costs (Current and Long-Term)	5,982,411	6,107,903
Other Liabilities	<u>23,370,585</u>	<u>21,490,710</u>
TOTAL LIABILITIES	52,470,881	63,094,721
Net Position:		
Invested in Capital Assets, net of Related Debt	89,044,964	79,622,261
Restricted	8,047,803	7,589,354
Unrestricted	<u>48,208,216</u>	<u>51,523,492</u>
TOTAL NET POSITION	145,300,983	138,735,107

The Authority has maintained a positive balance in net position as indicated above. The Authority's net position increased by \$6,565,876 during the year. Total revenues decreased by \$1,398,607 (2.5%) from the previous year. Tipping fees were below last year by \$1,173,823 due to a decrease in all categories of waste deliveries and investment earnings were down from last year by \$816,484 due to lower bond yields. Total expenses increased \$269,056, (0.6%) from the previous year. Operating expenses increased by \$132,681, (0.5% excluding depreciation) due to increased expenses associated with the WTE facility offset by a reduction in the estimated costs associated with closure and post-closure for the Frey Farm Landfill. Support expenses increased by \$655,042, (7.4% excluding depreciation) partially due to costs associated with a waste transfer project which occurred in 2012.

	Change in Net Position	
	2012	2011
Revenues:		
Tipping Fees	36,739,546	37,913,369
Energy	12,721,735	12,394,865
Transportation	1,434,203	1,466,994
Other Revenues	2,608,956	2,311,335
Investment Earnings	<u>1,196,525</u>	<u>2,013,009</u>
TOTAL REVENUES	54,700,965	56,099,572

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL ANALYSIS (Continued)

	Change in Net Position	
	2012	2011
Expenses:		
Operating Expenses, Excluding Depreciation	29,126,719	28,994,038
Support Expenses, Excluding Depreciation	9,541,561	8,886,519
Depreciation Expense	7,719,947	8,026,182
Interest Expense	<u>1,746,862</u>	<u>1,959,294</u>
TOTAL EXPENSES	48,135,089	47,866,033
Increase in Net Position	6,565,876	8,233,539
Net Position - January 1	<u>138,735,107</u>	<u>130,501,568</u>
NET POSITION - DECEMBER 31	145,300,983	138,735,107

CAPITAL ASSETS, DEBT ADMINISTRATION and LONG-TERM OBLIGATIONS

Capital Assets

The Authority's capital assets (net of depreciation) as of December 31, 2012, are \$123,055,964. During 2012, the Authority's capital investments included the following: \$3,736,000 in landfill redevelopment costs, \$2,650,000 to purchase a property adjacent to the Frey Farm Landfill, and \$1,612,000 in equipment purchases. Depreciation expense for 2012 was \$7,719,947. A comparison of capital assets as of December 31, 2012 and December 31, 2011, is shown below.

	Capital Assets	
	2012	2011
Waste-to-Energy Facility	53,121,050	57,175,810
Landfill Facility	31,950,420	22,268,445
Transfer Station Facility	18,247,170	18,879,789
Support Facilities	6,102,572	6,319,809
Other Real Estate	5,462,730	5,451,026
Equipment	3,477,808	3,173,027
Administrative Building and Equipment	1,492,032	1,676,349
Construction in Progress	<u>3,202,182</u>	<u>6,780,307</u>
TOTAL CAPITAL ASSETS	123,055,964	121,724,562

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 and LONG-TERM OBLIGATIONS (Continued)

Debt Administration and Long-Term Obligations

At the end of December 31, 2012, the Authority had \$36,665,000 of outstanding bonds and other debt, a decrease of 22.7% from December 31, 2011. Total principal redemption in 2012 was \$13,460,000 which included the final payment of the 2009B Landfill Bonds. 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 \$5,982,411 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 2012, the System received 587,595 tons of waste. Of that total, 388,070 tons were processed at the WTE facility while the remaining 199,525 tons were deposited at the FFLF. The TS received 315,285 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 2012 were 8.4% below 2011 totals. All three facilities met the expectations of the Authority for the purposes of availability and overall operating performance. The WTE facility generated 225.4M kWh of electricity which the Authority sold to Metropolitan Edison Company at an average price of \$.05559/kWh, generating revenue of \$12,523,588 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 63.2% of all waste received and accounted for 48.1% of total revenue in 2012 or \$26,205,934 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 current agreements for MSW delivery were renewed in 2012 (effective 1/1/2013) and expire at the end of 2017. MSW tons generated in Lancaster County and delivered to the system decreased by 2.7% in 2012. During 2012 there was a continued weakness in refuse and construction/demolition deliveries. Additional MSW waste was received from out of county generators which comprised 3.7% of all waste received. The remaining waste received into the Authority system is residual waste which accounted for 31.7% of waste tonnage in 2012. Residual waste accounted for \$9,083,022 in revenue which was 16.7% of total revenue for the year and 24.7% 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. In 2012, \$12,523,588 in electric revenue generated from the WTE facility comprised 23.0% of total revenue. Electricity is sold pursuant to an electric sales agreement that expires on February 1, 2016.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

BUSINESS OUTLOOK (Continued)

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 2013 is \$6,478,900 (net of the real estate sale to the Lancaster Conservancy). Planned capital spending during 2013 includes \$1,575,000 of expenses for a compressed natural gas (CNG) infrastructure, CNG truck tractors for \$1,195,000 and the purchase and improvement to real estate adjacent to the Transfer Station Complex for \$1,150,000. Various Authority site improvement projects are budgeted at \$779,000 in 2013. In addition a sale of real estate is budgeted to the Lancaster Conservancy for \$490,000 for real estate at 821 Farmingdale Road, Lancaster, PA and a sale to Perdue for \$2,478,000 to purchase 57 acres of land adjacent to the WTE facility was budgeted in 2012 and forecasted to occur in 2013.

Negotiations to purchase Harrisburg Materials Energy Recycling Recovery Facility (HMERRF)

The Authority is in negotiations with the state appointed Receiver for the City of Harrisburg to purchase the HMERRF in 2013. For the transaction to occur, it must be approved by the Office of the Receiver, Commonwealth Court, The Harrisburg Authority, and possibly others. The Authority expects the transaction to occur in the first half of 2013. The Authority plans to issue debt in the form of revenue bonds to make this purchase. Additional revenues received through this acquisition are expected to be more than adequate to pay for the additional debt, new operating costs, and capital improvements.

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@lcswwa.org.

Lancaster County Solid Waste Management Authority

COMPARATIVE STATEMENTS of NET POSITION

December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,769,122	\$ 4,315,593
Investments	37,161,148	42,199,020
Accounts Receivable, net of Provision for Bad Debts of \$10,000 at 2012 and 2011	7,589,017	7,226,618
Note Receivable, Current Portion	408,530	429,985
Interest Receivable	251,220	309,721
Inventory	12,399	9,161
Other Current Assets (Note 3)	440,741	455,306
	<hr/>	<hr/>
Total Current Assets	50,632,177	54,945,404
RESTRICTED ASSETS		
Investments with Trustee (Note 4)	3,073,566	6,222,749
Interest Receivable	4,862	3,543
	<hr/>	<hr/>
Total Restricted Assets with Trustee	3,078,428	6,226,292
Closure and Post-Closure Care Funds	14,030,214	13,697,257
	<hr/>	<hr/>
Total Restricted Assets	17,108,642	19,923,549
OTHER ASSETS		
Notes Receivable, net of Current Portion (Note 5)	6,856,737	5,000,364
Deferred Charges, net of Amortization of \$607,895 at 2012 and \$490,290 at 2011	118,344	235,949
	<hr/>	<hr/>
Total Other Assets	6,975,081	5,236,313
REAL ESTATE, FACILITIES, and EQUIPMENT (Note 6)		
Waste-to-Energy Facility	139,734,613	139,706,675
Landfill Facility	87,905,458	77,119,466
Transfer Station Facility	22,032,898	21,936,420
Equipment	13,100,279	12,797,823
Support Facilities	7,566,562	7,566,562
Other Real Estate	5,847,896	5,727,036
Administrative Building and Equipment	3,567,207	3,526,708
	<hr/>	<hr/>
	279,754,913	268,380,690
Depreciation to Date	(159,901,131)	(153,436,435)
	<hr/>	<hr/>
Net Depreciable Assets	119,853,782	114,944,255
Construction in Progress (Note 7)	3,202,182	6,780,307
	<hr/>	<hr/>
Net Real Estate, Facilities, and Equipment	123,055,964	121,724,562
	<hr/>	<hr/>
TOTAL ASSETS	\$ 197,771,864	\$ 201,829,828

See notes to financial statements.

Lancaster County Solid Waste Management Authority

COMPARATIVE STATEMENTS of NET POSITION

(Continued)

December 31, 2012 and 2011

	2012	2011
LIABILITIES and NET POSITION		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt (Note 13)	\$ 14,675,000	\$ 13,460,000
Current Portion of Estimated Post-Closure Care Costs - Creswell	136,000	139,000
Accounts Payable - Trade	4,869,165	5,220,688
Other Current Liabilities (Note 9)	795,748	742,657
Accrued Expenses (Note 10)	2,960,709	1,970,883
Accrued Interest Payable (Note 11)	69,963	96,482
	<u>23,506,585</u>	<u>21,629,710</u>
Total Current Liabilities	23,506,585	21,629,710
LONG-TERM LIABILITIES		
Long-Term Debt, net of Current Portion (Note 13)	21,990,000	33,983,704
Estimated Post-Closure Care Costs - Creswell	949,000	1,111,000
Estimated Closure and Post-Closure Care Costs - Frey Farm	4,897,411	4,857,903
Other Long-Term Liabilities (Note 14)	1,127,885	1,512,404
	<u>28,964,296</u>	<u>41,465,011</u>
Total Long-Term Liabilities	28,964,296	41,465,011
TOTAL LIABILITIES	<u>52,470,881</u>	<u>63,094,721</u>
NET POSITION		
Invested in Capital Assets, net of Related Debt	89,044,964	79,622,261
Restricted for Landfill Closure and Post-Closure Costs	8,047,803	7,589,354
Unrestricted (Note 15)	48,208,216	51,523,492
	<u>145,300,983</u>	<u>138,735,107</u>
TOTAL NET POSITION	<u>\$ 145,300,983</u>	<u>\$ 138,735,107</u>

See notes to financial statements.

Lancaster County Solid Waste Management Authority
 STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET POSITION
 Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Tipping Fees	\$ 36,739,546	\$ 37,913,369
Energy	12,721,735	12,394,865
Transportation	1,434,203	1,466,994
Other	2,026,519	1,963,226
Total Operating Revenues	52,922,003	53,738,454
OPERATING EXPENSES		
Waste-to-Energy Facility	22,064,651	21,613,714
Landfill	3,545,933	3,671,292
Transfer Station Complex	3,218,345	3,098,862
Household Hazardous Waste	290,841	280,577
Closure and Post-Closure Care - Frey Farm	39,509	446,071
Post-Closure Care - Creswell	(32,560)	(116,478)
Depreciation and Amortization	7,633,557	7,944,542
Total Operating Expenses	36,760,276	36,938,580
SUPPORT EXPENSES		
General and Administrative	9,541,561	8,886,519
Depreciation	86,390	81,640
Total Support Expenses	9,627,951	8,968,159
Total Operating and Support Expenses	46,388,227	45,906,739
OPERATING INCOME	6,533,776	7,831,715
NON-OPERATING REVENUES (EXPENSES)		
Grant Revenues	154,047	175,208
Gain (Loss) on Sale of Assets	161,409	(113,047)
Miscellaneous	266,981	285,948
Interest and Investment Earnings	1,196,525	2,013,009
Interest Expense	(1,746,862)	(1,959,294)
Net Non-Operating Revenues	32,100	401,824
CHANGES in NET POSITION	6,565,876	8,233,539
NET POSITION		
Beginning of Year	138,735,107	130,501,568
End of Year	\$ 145,300,983	\$ 138,735,107

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 52,883,128	\$ 52,252,706
Payments to Suppliers	(33,366,286)	(32,224,279)
Payments to Employees	<u>(4,584,309)</u>	<u>(4,347,193)</u>
Net Cash Provided by Operating Activities	14,932,533	15,681,234
CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES		
State and Local Grant Income	154,047	325,208
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Interest Paid	(2,202,550)	(2,497,198)
Principal Payments	(13,460,000)	(10,124,125)
Payments for Capital Acquisitions	(6,478,788)	(7,226,472)
Payments for Arbitrage Liabilities	-0-	(980,898)
Proceeds from Sale of Capital Assets	<u>235,400</u>	<u>483,199</u>
Net Cash Used by Capital and Related Financing Activities	(21,905,938)	(20,345,494)
CASH FLOWS from INVESTING ACTIVITIES		
Advances on Note Receivable	(1,856,373)	(350,364)
Payments Received on Notes Receivable	21,455	34,473
Sales of Restricted Investments	38,782,648	51,999,653
Purchases of Restricted Investments	(35,842,156)	(46,049,568)
Receipts of Interest	1,472,679	1,765,162
Sales of Unrestricted Investments	15,486,064	21,826,565
Purchases of Unrestricted Investments	<u>(10,791,430)</u>	<u>(27,287,708)</u>
Net Cash Provided by Investing Activities	<u>7,272,887</u>	<u>1,938,213</u>
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	453,529	(2,400,839)
CASH and CASH EQUIVALENTS		
Beginning	<u>4,315,593</u>	<u>6,716,432</u>
Ending	<u>\$ 4,769,122</u>	<u>\$ 4,315,593</u>
NONCASH INVESTING and FINANCING ACTIVITIES		
Note Payable Issued for Land Acquisition	2,650,000	-0-

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

(Continued)

Years Ended December 31, 2012 and 2011

	2012	2011
RECONCILIATION of OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating Income	\$ 6,533,776	\$ 7,831,715
ADJUSTMENTS to RECONCILE OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	7,719,947	8,026,182
Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Position Included for Cash Flow	270,433	289,400
(Increase) Decrease in:		
Accounts Receivable	(362,399)	(1,968,861)
Inventory and Other Current Assets	11,327	(23,099)
Increase (Decrease) in:		
Current Liabilities	884,941	1,288,826
Estimated Closure and Post-Closure Care Costs - Creswell and Frey Farm	<u>(125,492)</u>	<u>237,071</u>
Total Adjustments	<u>8,398,757</u>	<u>7,849,519</u>
Net Cash Provided by Operating Activities	<u>\$ 14,932,533</u>	<u>\$ 15,681,234</u>

See notes to financial statements.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of 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 - SUMMARY of 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.

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 - SUMMARY of 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 - SUMMARY of 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, 2012 and 2011, was \$7,719,947 and \$8,026,182, respectively.

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites. These costs totaled \$3,202,182 and \$6,780,307 at December 31, 2012 and 2011, 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 Position

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

Accounting Standards Adopted in 2012

For the year ended December 31, 2012, the Authority adopted the provisions of GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The Authority's beginning balances and current year results were not affected by the implementation of this new standard.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 was adopted by the Authority for the year ended December 31, 2012, and provides guidance on reporting deferred inflows and outflows of resources which are distinctly different from assets and liabilities. The Authority has changed certain financial statement terminology by primarily replacing the phrase "net assets" with the new term of "net position" The Authority's beginning balances and current year results were not affected by the implementation of this new standard.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles

In June 2011, GASB issued Statement No. 61, *The Financial Reporting Entity*. The objective of this statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this statement are effective for the Authority's 2013 financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for the Authority's 2013 financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections, an Amendment of GASB Statements No. 10 and 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this statement are effective for the Authority's 2013 financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which replaces the requirements of GASB Statement No. 25. The objective of this statement is to improve financial reporting by state and local governmental pension plans. The provisions of this statement are effective for the Authority's 2014 financial statements.

In June 2012, GASB Issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this statement are effective for the Authority's 2015 financial statements.

The effect of implementation of these standards has not yet been determined.

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, 2012, \$2,183,473 of the Authority's bank balance of \$11,478,911 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>2,183,473</u>
	2,183,473

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	2,183,473
Plus: Insured Amount	<u>9,295,438</u>
Bank Balance	11,478,911
Deposits in Transit	6,314
Outstanding Checks	<u>(274,621)</u>
Carrying Amount - Bank Balances	11,210,604
Petty Cash	3,150
Money Market Funds	2,439,454
Certificates of Deposit	<u>(8,884,086)</u>
Total Cash and Cash Equivalents Per Financial Statements	4,769,122

Investments

As of December 31, 2012, the Authority had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)			
		<1	1-5	6-10	10+
Tax Exempt Municipal Bonds	3,854,141	1,605,145	2,248,996		
U.S. Agency Securities	24,377,396	10,168,433	6,230,545	740,466	7,237,952
U.S. Treasury Securities	16,398,984	675,844	12,338,827	3,384,313	
Money Market Mutual Funds	<u>3,158,775</u>	<u>3,158,775</u>			
	47,789,296	15,608,197	20,818,368	4,124,779	7,237,952
Raffles Insurance, Ltd. -					
Redeemable Preference Share	30,900				
Raffles Insurance, Ltd. -					
Common Share	<u>100</u>				
Total Investments	47,820,296				

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, 2012, the Authority's investments were rated as:

	AAA	AA	A	Not Rated
Tax Exempt Municipal Bonds		2,239,254	1,334,296	280,591
U.S. Agency Securities		24,377,396		
U.S. Treasury Securities		16,398,984		
Money Market Funds	3,158,775			
Other - Raffles Insurance, Ltd.				<u>31,000</u>
	<u>3,158,775</u>	<u>43,015,634</u>	<u>1,334,296</u>	<u>311,591</u>

Concentration of Credit Risk

The Authority has a formal investment policy that limits the amount it may invest in any one issuer to 30% of total investments. More than 5% of the Authority's investments are in Federal Home Loan Mortgage Corporation obligations, Federal National Mortgage Association obligations and Federal Home Loan Bank obligations. These investments are 19.5%, 18.7%, and 8.4% 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, 2012 and 2011, none of the Authority's investments were exposed to custodial credit risk.

Reconciliation of Investments to Financial Statements

Total Investments Per Footnotes	47,820,296
Less: Money Market Funds	(2,439,454)
Add: Certificates of Deposit	<u>8,884,086</u>
Total Investments per Financial Statements	54,264,928

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 3 - OTHER CURRENT ASSETS

Balances consisted of the following at December 31, 2012 and 2011:

	2012	2011
Prepaid Insurance	327,884	314,774
Other Prepaid Expenses	<u>112,857</u>	<u>140,532</u>
	440,741	455,306

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, 2012 and 2011:

	2012	2011
Debt Service Reserve Funds	3,073,566	6,222,749

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 22, 2013.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 5 - NOTES RECEIVABLE (Continued)

Note Receivable from PPL Renewable Energy, LLC (PPLRE) (Continued)

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 5th anniversary of the commercial operation date of the project, and 2% thereafter. Interest only is due in quarterly installments on the notes for five years beginning one month after the first quarterly invoice date following the commercial operation date, with principal and interest due thereafter, in equal installments sufficient to amortize the notes over 15 years. At December 31, 2012, the Authority had advanced \$2,206,737 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.

Notes receivable balances at December 31, 2012 and 2011, are summarized as follows:

	December 31, 2012		
	Current Portion	Long-Term Portion	Total
Mortgage Note Receivable	408,530		408,530
Note Receivable from PPLRE		4,650,000	4,650,000
Notes Receivable from MP2 Capital, LLC	<u> </u>	<u>2,206,737</u>	<u>2,206,737</u>
	408,530	6,856,737	7,265,267
	December 31, 2011		
	Current Portion	Long-Term Portion	Total
Mortgage Note Receivable	429,985		429,985
Note Receivable from PPLRE		4,650,000	4,650,000
Notes Receivable from MP2 Capital, LLC	<u> </u>	<u>350,364</u>	<u>350,364</u>
	429,985	5,000,364	5,430,349

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, 2012	Additions	Deletions	Balance December 31, 2012
Capital Assets not Being Depreciated:				
Land and Improvements	20,198,705			20,198,705
Construction in Progress	<u>6,780,307</u>	<u>1,139,678</u>	<u>(4,717,803)</u>	<u>3,202,182</u>
Total Capital Assets not Being Depreciated	26,979,012	1,139,678	(4,717,803)	23,400,887
Capital Assets Being Depreciated:				
Waste-to-Energy Facility	137,303,239	27,940		137,331,179
Accumulated Depreciation	(82,530,872)	(4,082,698)		(86,613,570)
Landfill Facility	60,242,729	10,785,992		71,028,721
Accumulated Depreciation	(54,851,018)	(1,104,019)		(55,955,037)
Transfer Station Facility	21,913,016	96,477		22,009,493
Accumulated Depreciation	(3,056,631)	(729,097)		(3,785,728)
Equipment	12,797,823	1,612,400	(1,309,944)	13,100,279
Accumulated Depreciation	(9,624,793)	(1,235,152)	1,237,474	(9,622,471)
Support Facilities	7,566,562			7,566,562
Accumulated Depreciation	(1,246,752)	(217,237)		(1,463,989)
Other Real Estate	4,914,907	120,860		5,035,767
Accumulated Depreciation	(276,009)	(109,155)		(385,164)
Administrative Building and Equipment	3,443,709	63,244	(22,746)	3,484,207
Accumulated Depreciation	<u>(1,850,360)</u>	<u>(246,041)</u>	<u>21,229</u>	<u>(2,075,172)</u>
Capital Assets Being Depreciated, net	<u>94,745,550</u>	<u>4,983,514</u>	<u>(73,987)</u>	<u>99,655,077</u>
Capital Assets, net	121,724,562	6,123,192	(4,791,790)	123,055,964

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, 2012	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2012
Landfill	6,774,504	784,611	(4,712,000)	2,847,115
Transfer Station	1,313	-0-	(1,313)	-0-
Waste-to-Energy Facility	<u>4,490</u>	<u>355,067</u>	<u>(4,490)</u>	<u>355,067</u>
	6,780,307	1,139,678	(4,717,803)	3,202,182

Construction in progress relates to future landfill development and improvements to Waste-to-Energy Facility.

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 fourteen of the forty-seven properties at a cost of \$4,057,745. The Authority estimates that the current fair market value of the remaining thirty-three properties, determined without regard to the Authority's facilities and activities, is \$4,373,750. The Authority has resold six of the fourteen 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, 2012.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

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 began 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, 2012 and 2011:

	2012	2011
Prepaid Disposal Fees	795,748	742,657

NOTE 10 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2012 and 2011:

	2012	2011
Accrued Host Fees	400,816	217,364
Accrued DEP Recycling Fees	409,342	431,618
Accrued County Closure Fee	17,481	24,367
Accrued Haulers Rebate	826,741	839,292
Accrued Prepaid Rebate	47,320	41,510
Accrued Payroll	397,977	293,148
Payroll Taxes and Pension Plan		
Accrued and Withheld	113,154	46,244
Miscellaneous Accruals	<u>747,878</u>	<u>77,340</u>
	2,960,709	1,970,883

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 and Series of 2006 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 \$3,923,307 and \$3,934,326 at December 31, 2012 and 2011, 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, 2012, the Authority received reimbursement from the fund for various claims totaling \$7,029.

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, 2012, 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, 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.

Health Insurance

The Authority is a member of the Intergovernmental Insurance Cooperative (IIC) through which it self-insures employee health claims. Claims are administered by a third party. During the year ended December 31, 2012, the Authority remitted a contracted monthly amount to IIC, which remits the funds to the third-party administrator for payment of claims. Under the shared pooling agreement with IIC, if the Authority's claims exceed its contributions during the pool year, no additional payments are due. At the end of the pools' fiscal year, up to 15% of the Authority's excess is allocated to the pool to resolve any deficit of the pool. The Authority was limited in liability for claims to \$40,000 individually and \$784,785 in the aggregate. At December 31, 2012, there are no additional assessments related to the health plan.

NOTE 13 - LONG-TERM DEBT

Long-term debt at December 31, 2012, 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.

\$2,650,000 Real Estate Purchase Note of 2012

On December 31, 2012, the Authority signed a \$2,650,000 note for the purchase of seventy-five acres of farmland in Manor Township, Lancaster County, Pennsylvania. A principal payment of \$265,000 is due on January 10, 2013. The remaining unpaid principal balance of the Note and accrued interest at the rate of 0.24% is due and payable on March 3, 2013.

All bonds and bank notes are secured by the pledge of all of the Authority's right, title, and interest in the Authority's revenues and by all money and securities (except the rebate fund) held by the Trustee under the Amended and Restated Trust Indenture.

Long-term debt consists of the following at December 31, 2012:

	2005 Note	2006 Series	2012 Note	Total
Principal Amount Due	3,395,000	30,620,000	2,650,000	36,665,000
Less: Current Portion	<u>1,090,000</u>	<u>10,935,000</u>	<u>2,650,000</u>	<u>14,675,000</u>
Long-Term Principal Due	2,305,000	19,685,000	-0-	21,990,000

The following is a summary of the Authority's long-term debt transactions for the year ended December 31, 2012:

Debt Outstanding - January 1, 2012	47,475,000
New Debt Issuance	2,650,000
Repayments	<u>(13,460,000)</u>
Debt Outstanding - December 31, 2012	36,665,000

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - LONG-TERM DEBT (Continued)

The annual debt service requirements for all outstanding debt as of December 31, 2012, are as follows:

Year	Principal	Interest	Total
2013	14,675,000	1,596,965	16,271,965
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>
	36,665,000	3,088,170	39,753,170

NOTE 14 - OTHER LONG-TERM LIABILITIES

Balances consisted of the following at December 31, 2012 and 2011:

	2012	2011
Net Other Postemployment Benefit (OPEB)		
Obligation	382,208	255,466
Nonqualified Deferred Compensation Plan Obligation	202,905	136,100
Original Issue Premium, net of Amortization		
of \$1,734,739 at December 31, 2012		
and \$1,453,176 at December 31, 2011	<u>542,772</u>	<u>1,120,838</u>
	1,127,885	1,512,404

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

NOTE 15 - UNRESTRICTED NET POSITION

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 position and are board designated to their defined purpose. For the years ended December 31, 2012 and 2011, the balance of unrestricted net position is as follows:

	2012	2011
Board Designated Unrestricted Net Position:		
Construction Reserve Fund:		
Cash and Cash Equivalents	1,044,804	1,037,888
Investments	<u>9,086,274</u>	<u>11,085,104</u>
	10,131,078	12,122,992
Revenue Reserve Fund:		
Cash and Cash Equivalents	433,806	37,660
Investments	<u>7,588,940</u>	<u>7,903,103</u>
	8,022,746	7,940,763

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - UNRESTRICTED NET POSITION (Continued)

	2012	2011
Capital Reserve Fund:		
Cash and Cash Equivalents	908,534	1,012,974
Investments	<u>20,454,936</u>	<u>22,972,113</u>
	<u>21,363,470</u>	<u>23,985,087</u>
Total Board Designated Unrestricted Net Position	39,517,294	44,048,842
Undesignated Unrestricted Net Position	<u>8,690,922</u>	<u>7,474,650</u>
Total Unrestricted Net Position	48,208,216	51,523,492

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, 2012 and 2011, were \$511,454 and \$475,938, 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, 2012 and 2011, were \$285,554 and \$272,336, respectively.

NOTE 17 - POSTRETIREMENT 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 \$382,208 and \$255,466 at December 31, 2012 and 2011, respectively, in other long-term liabilities resulting from the adoption.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 17 - POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

Description (continued)

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 coverage to age 65 or until eligible for Medicare, whichever occurs first, by remitting a portion of the monthly cost to the Authority. The retired member must pay a portion of the cost, equal to the active participants' contribution (\$650 and \$637 per year in 2012 and 2011, respectively) for retiree coverage, and 100% of the spouse's cost, if applicable. The retiree's portion of the cost is payable in advance on a monthly basis. The Authority pays the remainder of the cost. 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 medical coverage as deposits are made to the IIC claim fund. 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, 2012 and 2011:

	2012	2011	2010
Annual Required Contribution	222,704	132,302	132,170
Interest on Net OPEB Obligation	11,143	8,635	6,767
Adjustment to Annual Required Contribution	<u>(33,024)</u>	<u>(21,587)</u>	<u>(16,917)</u>
Annual OPEB Cost	200,823	119,350	122,020
Contributions Made	<u>74,081</u>	<u>79,757</u>	<u>75,312</u>
Increase in Net OPEB Obligation	126,742	39,593	46,708
Net OPEB Obligation - Beginning of Year	<u>255,466</u>	<u>215,873</u>	<u>169,165</u>
Net OPEB Obligation - End of Year	382,208	255,466	215,873

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the new OPEB obligation for 2010, 2011, and 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation - End of Year
12/31/2010	122,020	62%	215,873
12/31/2011	119,350	67%	255,466
12/31/2012	200,823	42%	382,208

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 17 - POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

Funding Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled \$1,167,297, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,167,297. The covered payroll (annual payroll of active employees covered by the plan) equaled \$4,084,746, and the ratio of the UAAL to the covered payroll equaled 28.6%.

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, 2012, 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 6.0% in 2012 and 5% thereafter, 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.

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 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.

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, 2012 and 2011.

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, 2012, the Authority has estimated the future closure and post-closure care costs to be \$11,118,092. 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 70% and 68% of the landfill capacity being used at December 31, 2012 and 2011, 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 2012 and 2011 are as follows:

	2012	2011
Closure and Post-Closure Care - Frey Farm		
Net Increase in Estimate of Closure and Post-Closure Care Liability	39,509	446,071
Closure and Post-Closure Care - Creswell		
Difference Between Actual and Estimated Costs - Current Year	(10,979)	(26,566)
Net (Decrease) in Estimate of Closure and Post-Closure Care Liability	<u>(26,000)</u>	<u>(63,000)</u>
	(36,979)	(89,566)

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 \$13,362,108 and are secured by deposits of \$14,030,214 (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, 2012
Frey Farm	9,447,860	9,447,860
Creswell	3,102,764	3,102,764
Waste-to-Energy Facility	498,921	498,921
Transfer Station	100,537	100,537
Liquid Treatment Facility	<u>36,179</u>	<u>36,179</u>
Total Closure Collateral	13,186,261	13,186,261
Roadway Repaving Project	1,392	1,392
Captive Insurance Premium	<u>174,455</u>	<u>174,455</u>
	13,362,108	13,362,108

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.

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 2012, the Authority donated \$32,044 to the Bainbridge Fire Company pursuant to this commitment. The Authority estimates that the remaining donations over the term of the agreement will be \$505,855.

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 \$57,929 and \$62,675 to the Susquehanna Heritage Corporation during the years ended December 31, 2012 and 2011, respectively. The Authority estimates that its remaining obligation under the agreement is \$120,000.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 18 - COMMITMENTS and CONTINGENCIES (Continued)

Litigation

The Authority is party to litigation and claims arising from the normal course of operations. Management anticipates that uninsured losses, if any, will not have a material adverse effect on the Authority's financial position.

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. During the year ended December 31, 2012, the Authority purchased \$19,053 of energy output of the project. 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
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	95,802	2,490,284
2018 - 2022	505,438	2,346,439 - 1,741,482
2023 - 2027	637,578	1,582,547 - 914,133
2028 - 2031	<u>594,632</u>	628,528 - 190,194
	1,947,092	

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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, 2012 and 2011:

	2012		2011	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer A	6,010,575	1,001,220	4,799,905	376,423
Customer B	4,819,637	363,671	4,917,912	805,402
Customer C	3,607,945	281,573	3,892,530	640,436

Energy revenues include transactions with a major customer as follows for the years ended December 31, 2012 and 2011:

Customer D	12,523,588	2,238,210	12,189,276	2,260,748
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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 position.

Lancaster County Solid Waste Management Authority

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE of FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
POSTRETIREMENT 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%
01/01/2012	-0-	1,167,297	1,167,297	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 and for the years ended December 31, 2012 and 2011, and our report thereon dated February 22, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. 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, 2010, 2009, and 2008. In our reports dated March 7, 2011, February 9, 2010, and February 12, 2009, respectively, we expressed unqualified opinions on those financial statements. Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The schedules of condensed revenues and expenses on page 38 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 38 is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.



February 22, 2013
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, 2012, 2011, 2010, 2009, and 2008

	2012	2011	2010	2009	2008
OPERATING REVENUES					
Tipping Fees	\$ 36,739,546	\$ 37,913,369	\$ 37,466,392	\$ 38,933,119	\$ 37,406,771
Energy	12,721,735	12,394,865	11,394,917	11,800,032	11,992,187
Transportation and Other	<u>3,460,722</u>	<u>3,430,220</u>	<u>3,083,160</u>	<u>2,401,304</u>	<u>3,240,659</u>
Total Operating Revenues	52,922,003	53,738,454	51,944,469	53,134,455	52,639,617
OPERATING EXPENSES					
Waste-to-Energy Facility	22,064,651	21,613,714	20,296,716	20,047,069	19,834,435
Landfill	3,545,933	3,671,292	3,629,414	3,813,546	3,704,540
Transfer Station Complex	3,218,345	3,098,862	2,918,545	2,561,069	2,918,433
Household Hazardous Waste	290,841	280,577	321,515	274,531	223,429
Closure and Post-Closure Care	6,949	329,593	1,803,715	(458,091)	483,033
Depreciation and Amortization	<u>7,633,557</u>	<u>7,944,542</u>	<u>7,523,662</u>	<u>7,803,536</u>	<u>8,479,317</u>
Total Operating Expenses	36,760,276	36,938,580	36,493,567	34,041,660	35,643,187
SUPPORT EXPENSES	<u>9,627,951</u>	<u>8,968,159</u>	<u>9,973,700</u>	<u>8,385,439</u>	<u>7,957,719</u>
Total Operating and Support Expenses	<u>46,388,227</u>	<u>45,906,739</u>	<u>46,467,267</u>	<u>42,427,099</u>	<u>43,600,906</u>
OPERATING INCOME	6,533,776	7,831,715	5,477,202	10,707,356	9,038,711
NET NON-OPERATING REVENUES	582,437	348,109	1,948,242	3,711,550	332,220
INTEREST and INVESTMENT EARNINGS	1,196,525	2,013,009	1,697,921	1,665,361	5,240,835
INTEREST EXPENSE	<u>(1,746,862)</u>	<u>(1,959,294)</u>	<u>(2,193,414)</u>	<u>(5,512,186)</u>	<u>(5,461,700)</u>
CHANGES in NET POSITION	<u><u>\$ 6,565,876</u></u>	<u><u>\$ 8,233,539</u></u>	<u><u>\$ 6,929,951</u></u>	<u><u>\$ 10,572,081</u></u>	<u><u>\$ 9,150,066</u></u>

See independent auditors' report on supplementary information.