

Lancaster County Solid Waste Management Authority

Years Ended December 31, 2013 and 2012



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Lancaster County Solid Waste Management Authority

Lancaster, Pennsylvania

Years Ended December 31, 2013 and 2012

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Lancaster County Solid Waste Management Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2013 and 2012

TABLE of CONTENTS

	Page
Independent Auditors' Report	1 & 2
Management's Discussion and Analysis	3 - 8
Financial Statements	
Statements of Net Position	9 & 10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12 & 13
Notes to Financial Statements	14 - 43
Required Supplementary Information	
Schedule of Funding Progress - Other Postemployment Benefits (OPEB) - Postretirement Health Care Benefits Plan - Unaudited	44
Supplementary Information	
Independent Auditors' Report on Supplementary Information	45
Schedules of Condensed Revenues and Expenses	46
Concise Statements for Publication	47

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, 2013 and 2012, 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 fraud or error.

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 auditors consider 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.

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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, 2013 and 2012, 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.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other postemployment benefits information on pages 3 through 8 and 44, 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 24, 2014
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

Management of the **Lancaster County Solid Waste Management Authority** (the Authority), issues the following narrative and analysis to assist the reader in understanding financial activities of the Authority for the fiscal year ended December 31, 2013.

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 9 through 13 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 14 through 43 of this report.

FINANCIAL HIGHLIGHTS

On December 23rd, 2013, the Authority purchased the assets of the Harrisburg Materials Energy Recycling Facility (HMERRF) from The Harrisburg Authority (THA). The facility, located in Harrisburg, Pennsylvania (Dauphin County) has been renamed the Susquehanna Resource Management Complex (SRMC) under the Authority's new ownership. The purchase was funded by issuing Series A Revenue Bonds with a par value of \$105,390,000 maturing in 2033 and the Series B Bonds in the amount of \$24,000,000 which are guaranteed by the County of Dauphin. LCSWMA's obligation pertaining to the Series B Bonds is limited to paying \$240,000 in interest annually until the principal matures in 2033.

The assets of the Authority increased by \$132,868,692, of which \$121,246,446 reflects the SRMC acquisition book value and related transactions. Total liabilities increased by \$126,284,376 which generally reflects new debt issuance directly related to the SRMC acquisition less scheduled retirement of previously existing debt. The Authority's revenues exceeded its expenses by \$6,584,316 resulting in an increase to total net position for 2013.

The assets of the Authority exceeded its liabilities at the close of the 2013 fiscal year by \$151,885,299 (net position). Of this amount, \$94,075,905 is invested in capital assets (net of related debt) and \$8,839,852 is restricted for landfill closure and post-closure monitoring costs. Unrestricted net position totals \$48,969,542 of which \$33,888,650 has been set aside in specific investment reserve funds for capital, construction, and revenue needs.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL ANALYSIS

The Authority's total net position at the close of the 2013 fiscal year is \$151,885,299. There are two major components of the Authority's net position: 1) investments in capital assets, accounting for 61.9%, and 2) investments in board designated reserve funds, accounting for 22.3 %. The board designated reserves primarily consist of funds that have been set aside for future capital and construction expenditures.

	Net Position	
	2013	2012
Current and Other Assets	\$ 88,169,604	\$ 74,738,550
Capital Assets	<u>242,493,602</u>	<u>123,055,964</u>
TOTAL ASSETS	330,663,206	197,794,514
Long-Term Liabilities Outstanding	149,270,204	23,117,885
Landfill Closure and Post-Closure Costs (Current and Long-Term)	8,968,006	5,982,411
Other Liabilities	<u>20,539,697</u>	<u>23,393,235</u>
TOTAL LIABILITIES	178,777,907	52,493,531
Invested in Capital Assets, net of Related Debt	94,075,905	89,044,964
Restricted	8,839,852	8,047,803
Unrestricted	<u>48,969,542</u>	<u>48,208,216</u>
TOTAL NET POSITION	\$ 151,885,299	\$ 145,300,983

The Authority continues to maintain a strong positive balance in net position as indicated above. The Authority's net position increased by \$6,584,316 during the year. Total revenues (operating and non-operating) increased by \$4,595,134 (8.4%) from the previous year. Tipping fees and energy sales account for a majority of the operating revenue (93.6%). Overall tipping fees were slightly below last year by \$211,082 (0.6%) while revenues from energy sales, primarily Waste-to-Energy plant production, was lower by \$354,890 (2.8%).

Non-operating revenues were up \$5,308,939 from the prior year as \$6,000,000 of an \$8,000,000 Commonwealth of Pennsylvania Redevelopment Assistance Capital Program (RACP) grant award directly related to the SRMC acquisition has been recognized. Investment earnings were down from last year by \$887,465 due to a lower amount of funds invested from the use of unrestricted reserves as well as net market value losses. Total expenses increased \$4,576,694 (9.5%) from the previous year. Operating expenses increased by \$372,977, (1.3% excluding depreciation) and include operating costs at SRMC post acquisition.

Total support expenses were \$13,922,914 (excluding depreciation) which includes \$4,328,910 in one-time SRMC acquisition related charges reflecting expenses incurred for ongoing due diligence activities as well as bond underwriting fees and other acquisition related closing costs.. Excluding these one-time charges, support expenses increased slightly by \$52,443 (0.5%).

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

	Change in Net Position	
	2013	2012
Revenues:		
Tipping Fees	\$ 36,528,464	\$ 36,739,546
Energy	12,366,845	12,721,735
Transportation	1,473,464	1,434,203
Other Revenues	8,621,718	2,612,408
Investment Earnings	<u>309,060</u>	<u>1,196,525</u>
TOTAL REVENUES	\$ 59,299,551	\$ 54,704,417
Expenses:		
Operating Expenses, Excluding Depreciation	29,499,696	29,126,719
Support Expenses, Excluding Depreciation	13,922,914	9,541,561
Depreciation Expense	7,754,366	7,723,399
Interest Expense	<u>1,538,259</u>	<u>1,746,862</u>
TOTAL EXPENSES	52,715,235	48,138,541
Increase in Net Position	6,584,316	6,565,876
Net Position - January 1	<u>145,300,983</u>	<u>138,735,107</u>
NET POSITION - DECEMBER 31	\$ 151,885,299	\$ 145,300,983

CAPITAL ASSETS, DEBT ADMINISTRATION and LONG-TERM OBLIGATIONS

Capital Assets

The Authority added \$127,952,767 in capital assets in 2013. The majority of the increase relates to the capitalized purchase price of \$121,246,445 for the SRMC property and equipment. The Authority also invested \$1,832,203 for the purchase and initial site work of property adjacent to the Transfer Station Complex (TSC) site for the development of a compressed natural gas (CNG) fueling facility. Related to this project, the Authority purchased 8 CNG tractors for \$1,260,000 with 6 additional tractors remaining to be delivered in early 2014. The CNG infrastructure and fueling operations are expected to commence in the spring of 2014.

Other capital expenditures included operating and support equipment purchases of \$1,395,973, Frey Farm Landfill (FFLF) redevelopment costs and site improvements of \$1,024,806, and \$1,193,340 relating to various property acquisitions, improvements, office and information technology related equipment.

Net asset disposals of \$760,763 include previously capitalized costs of \$358,200 for initial SRMC acquisition work in 2012 that has been written off to expense in 2013. Depreciation expense for 2013 was \$7,754,366. A comparison of capital assets as of December 31, 2013 and December 31, 2012, is shown below.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

	Capital Assets	
	2013	2012
Susquehanna Resource Management Complex (SRMC)	\$ 120,636,411	-0-
Waste-to-Energy Facility	49,066,355	\$ 53,121,050
Landfill Facility	31,151,580	31,950,420
Transfer Station Facility	17,547,327	18,247,170
Support Facilities	5,900,306	6,102,572
Other Real Estate	5,822,165	5,462,730
Equipment	4,146,640	3,477,808
Administrative Building and Equipment	1,533,504	1,492,032
Construction in Progress	<u>6,689,314</u>	<u>3,202,182</u>
TOTAL CAPITAL ASSETS	\$ 242,493,602	\$ 123,055,964

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

Debt Administration and Long-Term Obligations

At December 31, 2013, the Authority had \$151,380,000 of outstanding bonds and other debt of which \$129,390,000 reflects new debt associated with the SRMC acquisition (Note 12). Total principal redemption in 2013 was \$14,675,000 associated with 2005 and 2006 debt obligations and a real estate purchase note. The existing 2005 and 2006 Authority debt of \$21,990,000 outstanding is scheduled to expire in 2015. The Authority also has obligations to close the Frey Farm Landfill and perform post-closure monitoring for the Creswell and Frey Farm Landfills as well as post-closure monitoring associated with the SRMC ash landfills. The Authority has recorded related liabilities in the amount of \$8,968,006 for these activities.

REVIEW of OPERATIONS

SRMC Acquisition

The SRMC acquisition adds capacity for future Lancaster and Dauphin County municipal waste. Management believes this acquisition was necessary to remove potential future capital risk in funding capacity expansion at existing Authority facilities. Negotiations for the purchase included several key contractual agreements resulting in stable disposal rates for 20 years as well as securing a 20 year energy power purchase agreement with the Commonwealth of Pennsylvania. Tonnage and revenue guarantees were also provided by the City of Harrisburg and County of Dauphin for municipal solid waste delivery which ensures predictable revenue flows to support debt service going forward. Additionally, the Authority has been approved for an \$8,000,000 grant from the Commonwealth of Pennsylvania Redevelopment Assistance Capital Program (RACP) to assist in acquisition and upgrading of the facility, of which \$6,000,000 has been recognized in 2013. The acquisition provides the Authority with an integrated system of waste management that provides processing redundancy within an efficient geographical footprint and results in a total self-supporting asset.

Facilities

With the acquisition of the SRMC, the Authority now owns four primary facilities which comprise the Authority's solid waste processing and disposal system (the System). In addition to the acquired SRMC facility, the other primary facilities are the Transfer Station Complex (TSC), the Frey Farm Landfill (FFLF) and the Waste-to-Energy (WTE) facility. In 2013, the System received 595,244 tons of waste, including 15,938 tons of recyclable material. The WTE facility received 364,675 tons and 208,375 tons were deposited at the FFLF. Additionally, 6,256 tons of waste were received at the newly acquired SRMC during the 12/23/2013 to 12/31/2013 ownership period.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

REVIEW of OPERATIONS (continued)

The TSC received 315,992 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 2013, including recycling, were up 1.3% relative to 2012. The TSC, WTE, and FFLF facilities met the expectations of the Authority for the purposes of availability and overall operating performance. The WTE facility generated 217.2 M kWh of electricity which the Authority sold to Metropolitan Edison Company at an average price of \$.0558 /kWh, generating revenue of \$12,121,072 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 67% of all waste received and accounted for 53% of total operating revenue in 2013 or \$27,724,083 in tipping fees. This includes \$1,041,406 (4%) related specifically to a waste transfer project early in 2013 involving the County of Dauphin as well as \$461,539 in MSW deliveries to SRMC during the Authority's ownership period from 12/23/2013 to 12/31/2013.

MSW includes refuse and construction/demolition waste (C&D). 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. Overall MSW tons generated in Lancaster County and delivered to the system decreased slightly by 0.8% in 2013. C&D tonnage, which makes up approximately 20% of all county MSW delivery volume, was up 4.9%, offsetting a 2.1% decline in refuse tonnage as 2013 continued the trend of general weakness in refuse deliveries over the last two years. Approximately 82% of the revenue generated by MSW deliveries to SRMC is backed by 20 year tipping fee contracts with the facility's two primary customers: the County of Dauphin and the City of Harrisburg. The contracts also include minimum revenue and tonnage guarantees.

In addition to receiving and processing MSW, the Authority's system also receives residual waste which accounted for 30.6% of overall system tonnage in 2013 and approximately 16.6% of all operating revenue. Residual waste revenue for 2013 was \$8,674,510 which was about 4.5% lower than 2012 on a 2.6% drop in tonnage delivered. Residual waste is received through contracts with the waste generator, waste broker, or waste transporter.

In 2013, the Authority earned \$12,366,845 in energy revenue predominately from waste-to-energy production. Energy revenue, which accounts for approximately 24% of total operating revenue, was down 2.8% largely due to a drop in tons processed and, to a lesser extent, some unscheduled plant outages. Electricity produced at the WTE facility is sold pursuant to an electric sales agreement that expires on February 1, 2016. Electricity produced and sold from SRMC plant operations are secured with 20-year rate contracts with the Commonwealth of Pennsylvania's Department of General Services which becomes effective on March 1, 2014.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Capital Expenses/Reserve Management

The Authority's capital spending program is funded with free cash flow from operations. Cash derived from operations is invested in various unrestricted investment accounts for the purpose of capital outlays. These investment balances are monitored continuously to ensure payment for planned capital needs throughout the year. The gross capital budget for 2014 is \$11,882,700. The major components of the 2014 capital plan include \$5,661,000 in specific SRMC facility improvements and upgrades, \$2,350,000 towards completion of a compressed natural gas (CNG) infrastructure, and \$1,984,500 in operating equipment purchases. The remaining balance of \$1,887,200 represents various authority site improvement projects. Planned asset sales of \$2,478,000 represent an anticipated transaction with Perdue Agribusiness, Inc LLC to purchase 57 acres of land adjacent to the WTE facility. This transaction was budgeted in 2012 and expected to close in 2013, however various delays have pushed the expected sale to 2014.

REQUESTS for INFORMATION

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

Lancaster County Solid Waste Management Authority

STATEMENTS of NET POSITION

December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 8,747,226	\$ 4,769,122
Investments	27,335,664	37,161,148
Accounts Receivable, net of Provision for Bad Debts of \$10,000 at 2013 and 2012	6,907,865	7,589,017
Grants Receivable	6,000,000	-0-
Note Receivable, Current Portion	388,675	408,530
Interest Receivable	153,819	251,220
Inventory	17,339	12,399
Other Current Assets (Note 3)	494,542	463,391
	<hr/>	<hr/>
Total Current Assets	50,045,130	50,654,827
RESTRICTED ASSETS		
Investments with Trustee (Note 4)	12,080,599	3,073,566
Interest Receivable	4,853	4,862
	<hr/>	<hr/>
Total Restricted Assets with Trustee	12,085,452	3,078,428
Escrow Deposit	1,350,000	-0-
Closure and Post-Closure Care Funds	17,807,858	14,030,214
	<hr/>	<hr/>
Total Restricted Assets	31,243,310	17,108,642
OTHER ASSETS		
Notes Receivable, net of Current Portion (Note 5)	6,856,737	6,856,737
Deferred Charges, net of Amortization of \$188,573 at 2013 and \$607,895 at 2012	24,427	118,344
	<hr/>	<hr/>
Total Other Assets	6,881,164	6,975,081
REAL ESTATE, FACILITIES, and EQUIPMENT (Note 6)		
Waste-to-Energy Facility	139,760,526	139,734,613
Susquehanna Resource Management Complex	120,636,411	-0-
Landfill Facility	88,241,742	87,905,458
Transfer Station Facility	22,068,223	22,032,898
Equipment	14,026,602	13,097,146
Support Facilities	7,582,913	7,566,562
Other Real Estate	6,329,409	5,847,896
Administrative Building and Equipment	3,836,980	3,567,207
	<hr/>	<hr/>
	402,482,806	279,751,780
Accumulated Depreciation	(166,678,518)	(159,901,131)
	<hr/>	<hr/>
Net Depreciable Assets	235,804,288	119,850,649
Construction in Progress (Note 7)	6,689,314	3,205,315
	<hr/>	<hr/>
Net Real Estate, Facilities, and Equipment	242,493,602	123,055,964
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TOTAL ASSETS	\$ 330,663,206	\$ 197,794,514

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of NET POSITION

(Continued)

December 31, 2013 and 2012

	2013	2012
LIABILITIES and NET POSITION		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt (Note 12)	\$ 12,065,000	\$ 14,675,000
Current Portion of Estimated Post-Closure Care Costs	124,000	136,000
Accounts Payable - Trade	4,989,601	4,869,165
Other Current Liabilities (Note 9)	806,134	795,748
Accrued Expenses (Note 10)	2,479,117	2,983,359
Accrued Interest Payable (Note 11)	<u>199,845</u>	<u>69,963</u>
Total Current Liabilities	20,663,697	23,529,235
LONG-TERM LIABILITIES		
Long-Term Debt, net of Current Portion (Note 12)	139,315,000	21,990,000
Estimated Closure and Post-Closure Care Liability	8,844,006	5,846,411
Other Long-Term Liabilities (Note 13)	<u>9,955,204</u>	<u>1,127,885</u>
Total Long-Term Liabilities	<u>158,114,210</u>	<u>28,964,296</u>
TOTAL LIABILITIES	<u>178,777,907</u>	<u>52,493,531</u>
NET POSITION		
Invested in Capital Assets, net of Related Debt	94,075,905	89,044,964
Restricted for Closure and Post-Closure Care Costs	8,839,852	8,047,803
Unrestricted (Note 14)	<u>48,969,542</u>	<u>48,208,216</u>
TOTAL NET POSITION	<u>\$ 151,885,299</u>	<u>\$ 145,300,983</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, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Tipping Fees	\$ 36,528,464	\$ 36,739,546
Energy	12,366,845	12,721,735
Transportation	1,473,464	1,434,203
Other	1,839,425	2,026,519
Total Operating Revenues	52,208,198	52,922,003
OPERATING EXPENSES		
Waste-to-Energy Facility	21,586,995	22,066,779
Landfill	3,519,757	3,543,805
Transfer Station Complex	3,132,300	3,218,345
Susquehanna Resource Management Complex	439,348	-0-
Household Hazardous Waste	341,862	290,841
Closure and Post-Closure Care	479,434	6,949
Depreciation	7,667,655	7,633,557
Total Operating Expenses	37,167,351	36,760,276
SUPPORT EXPENSES		
General and Administrative	13,922,914	9,541,561
Depreciation	86,711	89,842
Total Support Expenses	14,009,625	9,631,403
Total Operating and Support Expenses	51,176,976	46,391,679
OPERATING INCOME	1,031,222	6,530,324
NON-OPERATING REVENUES (EXPENSES)		
Grant Revenues	6,250,762	154,047
Gain on Sale of Assets	141,645	161,409
Miscellaneous	389,886	270,433
Interest and Investment Earnings	309,060	1,196,525
Interest Expense	(1,538,259)	(1,746,862)
Net Non-Operating Revenues	5,553,094	35,552
CHANGES in NET POSITION	6,584,316	6,565,876
NET POSITION		
Beginning of Year	145,300,983	138,735,107
End of Year	\$ 151,885,299	\$ 145,300,983

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 53,154,582	\$ 52,883,128
Payments to Suppliers	(37,822,472)	(33,366,286)
Payments to Employees	<u>(4,956,818)</u>	<u>(4,584,309)</u>
Net Cash Provided by Operating Activities	10,375,292	14,932,533
CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES		
State and Local Grant Income	250,762	154,047
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Interest Paid	(1,596,022)	(2,202,550)
Principal Payments	(14,675,000)	(13,460,000)
Proceeds from Issuance of Long-Term Debt	136,926,366	-0-
Payment for Acquisition of Susquehanna Resource Management Complex	(122,065,273)	-0-
Payments for Capital Acquisitions	(6,706,321)	(6,478,788)
Proceeds from Sale of Capital Assets	<u>547,341</u>	<u>235,400</u>
Net Cash Used by Capital and Related Financing Activities	(7,568,909)	(21,905,938)
CASH FLOWS from INVESTING ACTIVITIES		
Advances on Note Receivable	-0-	(1,856,373)
Payments Received on Notes Receivable	19,855	21,455
Sales of Restricted Investments	27,312,057	38,782,648
Purchases of Restricted Investments	(37,072,382)	(35,842,156)
Receipts of Interest	1,195,521	1,472,679
Sales of Unrestricted Investments	23,219,222	15,486,064
Purchases of Unrestricted Investments	<u>(13,753,314)</u>	<u>(10,791,430)</u>
Net Cash Provided by Investing Activities	920,959	7,272,887
INCREASE in CASH and CASH EQUIVALENTS	3,978,104	453,529
CASH and CASH EQUIVALENTS		
Beginning	<u>4,769,122</u>	<u>4,315,593</u>
Ending	<u>\$ 8,747,226</u>	<u>\$ 4,769,122</u>
NONCASH INVESTING and FINANCING ACTIVITIES		
Restricted Escrow Deposit Received	1,350,000	-0-
Note Payable Issued for Land Acquisition	-0-	2,650,000

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

(Continued)

Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION of OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating Income	\$ 1,031,222	\$ 6,530,324
ADJUSTMENTS to RECONCILE OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	7,754,366	7,723,399
Expensing of Acquisition Costs Previously Capitalized	355,067	-0-
Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Position Included for Cash Flow	389,886	270,433
(Increase) Decrease in:		
Accounts Receivable	681,152	(362,399)
Inventory and Other Current Assets	(36,091)	11,327
Increase (Decrease) in:		
Current Liabilities	(150,905)	884,941
Estimated Closure and Post-Closure Care Costs	<u>350,595</u>	<u>(125,492)</u>
Total Adjustments	<u>9,344,070</u>	<u>8,402,209</u>
Net Cash Provided by Operating Activities	<u>\$ 10,375,292</u>	<u>\$ 14,932,533</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 (the "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 solid waste ("MSW") generated within its boundaries.

Lancaster County

The Lancaster County Municipal Waste Management Plan 2010 (the "Lancaster 2010 Plan") revised and updated the Lancaster County Municipal Waste Management Plan 1999 (the "Lancaster 1999 Plan") and the Lancaster County Municipal Waste Management Plan 1990 (the "Lancaster 1990 Plan"). The Lancaster 2010, 1999, and 1990 Plans (collectively the "Lancaster Plan") were all duly approved by the Lancaster County Commissioners and the Pennsylvania Department of Environmental Protection ("PaDEP") in accordance with the Acts. The Lancaster Plan provides for a comprehensive and integrated system (the "Lancaster System") for management of MSW which is generated in Lancaster County, Pennsylvania. The Lancaster 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 Lancaster Plan, the Authority has been designated as the public agency responsible for (a) designing, developing, financing, constructing, and owning, operating and managing the Lancaster System, (b) conducting continuing municipal waste planning, and (c) implementing the Lancaster Plan. Such implementation is effected, *inter alia*, through the Lancaster County Municipal Waste Management Ordinance adopted May 31, 1990 (the "Lancaster 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 Lancaster 1990 Ordinance nor the Municipal Waste Management Agreement may be amended without the Authority's consent. The Lancaster Plan has the force of law and violators are subject to civil and criminal penalties.

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

Dauphin County

The Authority has primarily conducted waste disposal operations in the County of Lancaster. With the acquisition of the Susquehanna Resource Management Complex, the Authority will expand its operations into adjoining Dauphin County. The Susquehanna Resource Management Complex, formerly known as the Harrisburg Resource Recovery Facility, is located on a parcel situated in Swatara Township and the City of Harrisburg, Dauphin County, Pennsylvania (the "Site"). The Site includes: (a) the Susquehanna Resource Management Facility, which is designed to process 800 tons per day of MSW and produce steam to generate up to 23 megawatts of electricity; (b) an ash landfill containing closed and two active monofill cells; (c) the Drying and Dewatering Building; and (d) various other buildings and equipment. The Susquehanna Resource Management Complex was formerly owned by The Harrisburg Authority ("THA") and was acquired by the Authority on December 23, 2013 as part of the implementation of a fiscal recovery plan for the City of Harrisburg. In the past, under the operation and management of THA, and prior to a Covanta Harrisburg, Inc. retrofit, the Harrisburg Resource Recovery Facility encountered operational problems.

In conjunction with this acquisition of the Susquehanna Resource Recovery Complex by the Authority, the County of Dauphin delegated to the Authority its duties and obligations to ensure adequate disposal capacity for municipal solid waste generated in Dauphin County, and provided waste flow control regulations that require, with limited exception, all such MSW be delivered to the Susquehanna Resource Management Complex. In May 1991, the Dauphin County Municipal Waste Management Plan was approved by PaDEP, having previously been approved by Dauphin County and the requisite number of municipalities. The Dauphin 1991 Plan was amended by the Dauphin 1994, 1995, 1999, and 2003 Non-substantial Plan Revisions (collectively the "Dauphin Plan"). In 2004, the Dauphin Plan was revised to make the Susquehanna Resource Management Complex (then known as the Harrisburg Materials and Energy Resource Recovery Facility) the designated facility for all Dauphin County MSW, except for the MSW generated in Swatara Township and Highspire Borough. In 2005 a Substantial Plan Revision provided for disposal of construction and demolition ("C & D") Waste in twelve designated landfill facilities. In October 2013, a Nonsubstantial Plan Revision was deemed approved by PaDEP recognizing that, upon closing and acquisition of the Susquehanna Resource Management Complex, the Authority will be the governmental entity responsible for assuring adequate MSW processing and disposal capacity for Dauphin County and as the owner of the designated facility. Dauphin County originally adopted a flow control ordinance in 1991 and the ordinance was amended in 2013 to conform to the Dauphin 2013 Nonsubstantial Plan Revision and the Delegation Agreement.

Unlike the Lancaster Plan, the Dauphin Plan provides that the Authority has responsibility within Dauphin County solely for the processing and disposal of MSW. In addition to certain agreed rates for MSW generated within Dauphin County as discussed in Note 19, the Authority establishes, from time to time, solid waste disposal fees for out-of-County MSW 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 Susquehanna Resource Recovery Complex 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 as amended, *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 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 non-operating 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 non-operating 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 market value in accordance with accounting principles generally accepted in the United States of America.

Escrow Deposit

In order to assure timely payment of amounts due to the Authority, the City of Harrisburg has placed funds on deposit with the Authority. In the event that the City of Harrisburg fails to remit tipping fees or shortfall fees, as defined in the municipal waste disposal agreement between the parties, within thirty days of the due date, the Authority is authorized to withdraw such delinquent amounts from the escrow deposit, and the City of Harrisburg is obligated to restore the escrow deposit so withdrawn within thirty days of notice.

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 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.

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)

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 years.

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

Building and Fixtures	25 to 40 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, 2013 and 2012, was \$7,754,366 and \$7,723,399, respectively.

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites. These costs totaled \$6,689,314 and \$3,205,315 at December 31, 2013 and 2012, respectively.

Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB.

GASB No. 45 generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers are based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. The provisions of GASB No. 45 may be applied prospectively and do not require governments to fund their OPEB plans. Employers were permitted to establish OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods.

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 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2013

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. Implementation of this standard in 2013 had no effect on the Authority's current 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. Implementation of this standard by the Authority in 2013 resulted in a one-time charge of \$67,586 to interest expense.

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*. Implementation of this standard in 2013 had no effect on the Authority's current financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations, where specific authoritative guidance previously did not exist. The provisions of this statement are effective for the Authority's 2014 financial statements. As permitted by the standard, the Authority elected to early-implement this standard, and applied the guidance to the acquisition of the Susquehanna Resource Management Complex discussed in these footnotes and reported in these financial statements.

Pending Changes in Accounting Principles

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles (Continued)

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The provisions of this statement are effective for the Authority's 2014 financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pensions contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities. The provisions of this statement are effective for the Authority's 2015 financial statements.

The effect of implementation of these pending 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.

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, 2013, \$3,506,173 of the Authority's bank balance of \$9,123,261 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>3,506,173</u>
	3,506,173

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	3,506,173
Plus: Insured Amount	<u>5,617,088</u>
Bank Balance	9,123,261
Deposits in Transit	18,315
Outstanding Checks	<u>(307,165)</u>
Carrying Amount - Bank Balances	8,834,411
Petty Cash	3,400
Money Market Funds	6,583,985
Escrow Deposit in Restricted Assets	(1,350,000)
Certificates of Deposit	<u>(5,324,570)</u>
Total Cash and Cash Equivalents Per Financial Statements	8,747,226

Investments

As of December 31, 2013, the Authority had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)			
		<1	1-5	6-10	10+
Tax Exempt Municipal Bonds	6,909,598	2,364,618	4,544,980		
U.S. Agency Securities	13,580,676	3,330,721	3,768,946	548,195	5,932,814
U.S. Treasury Securities	22,190,285	2,980,683	16,326,998	2,882,604	
Money Market Mutual Funds	<u>15,771,977</u>	<u>15,771,977</u>	<u> </u>	<u> </u>	<u> </u>
	58,452,536	24,447,999	24,640,924	3,430,799	5,932,814
Raffles Insurance, Ltd. - Redeemable Preference Share	30,900				
Raffles Insurance, Ltd. - Common Share	<u>100</u>				
Total Investments	58,483,536				

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Credit Risk

The Authority has a formal investment policy that limits its investment choices to certain credit ratings. As of December 31, 2013, the Authority's investments were rated as:

	AAA	AA	A	Not Rated
Tax Exempt Municipal Bonds		5,509,306	1,400,292	
U.S. Agency Securities		13,580,676		
U.S. Treasury Securities		22,190,285		
Money Market Funds	15,771,977			
Other - Raffles Insurance, Ltd.				<u>31,000</u>
	<u>15,771,977</u>	<u>41,280,267</u>	<u>1,400,292</u>	<u>31,000</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 Goldman-Sachs Financial Square Money Market Fund, Federal Home Loan Mortgage Corporation obligations, Wells Fargo Advantage Government Money Market Fund, and Federal National Mortgage Association obligations. These investments are 15.5%, 12.7%, 9.9%, and 8.9% 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, 2013 and 2012, none of the Authority's investments were exposed to custodial credit risk.

Reconciliation of Investments to Financial Statements

Total Investments Per Footnotes	58,483,536
Less: Money Market Funds	(6,583,985)
Add: Certificates of Deposit	<u>5,324,570</u>
Total Investments per Financial Statements	57,224,121

NOTE 3 - OTHER CURRENT ASSETS

Balances consisted of the following at December 31, 2013 and 2012:

	2013	2012
Prepaid Insurance	346,157	327,884
Other Prepaid Expenses	<u>148,385</u>	<u>135,507</u>
	494,542	463,391

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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, 2013 and 2012:

	2013	2012
Debt Service Reserve Funds	12,080,599	3,073,566

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 were 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, 2014.

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 pays to the Authority 6% interest on the outstanding balance of the \$4,650,000 improvement loan. PPLRE also pays 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 5 - NOTES RECEIVABLE (Continued)

Note Receivable from MP2 Capital, LLC

During the year ended December 31, 2011, the Authority entered into Solar Power Purchase Agreements and Lease with MP2 Capital, LLC (MP2). Pursuant to the terms of these agreements, MP2 installed a solar project at the Authority's transfer station facility and was granted a leasehold improvement interest thereon. The Authority provided MP2 with partial financing for the project in the form of an improvement loan. The note bears interest at 4.25% until the fifth 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.

MP2 pays the Authority rentals totaling \$6,042 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 project on the fifth anniversary of the commercial operation date, and every two years thereafter, for a predefined value net of the note receivable balance.

Notes receivable balances at December 31, 2013 and 2012, are summarized as follows:

	December 31, 2013		
	Current Portion	Long-Term Portion	Total
Mortgage Note Receivable	388,675		388,675
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>
	388,675	6,856,737	7,245,412
	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

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, 2013	Additions	Deletions	Balance December 31, 2013
Capital Assets not Being Depreciated:				
Land and Improvements	22,848,705	2,988		22,851,693
Construction in Progress	<u>3,205,315</u>	<u>3,842,199</u>	<u>(358,200)</u>	<u>6,689,314</u>
Total Capital Assets not Being Depreciated	26,054,020	3,845,187	(358,200)	29,541,007
Capital Assets Being Depreciated:				
Waste-to-Energy Facility	137,331,179	25,912		137,357,091
Accumulated Depreciation	(86,613,570)	(4,080,608)		(90,694,178)
Landfill Facility	68,378,721	333,296		68,712,017
Accumulated Depreciation	(55,955,037)	(1,135,124)		(57,090,161)
Transfer Station Facility	22,009,493	35,325		22,044,818
Accumulated Depreciation	(3,785,728)	(735,169)		(4,520,897)
Susquehanna Resource Management Complex	-0-	120,636,411		120,636,411
Equipment	13,097,146	1,990,332	(1,060,876)	14,026,602
Accumulated Depreciation	(9,622,471)	(1,207,093)	949,606	(9,879,958)
Support Facilities	7,566,562	16,351		7,582,913
Accumulated Depreciation	(1,463,989)	(218,618)		(1,682,607)
Other Real Estate	5,035,767	772,806	(291,293)	5,517,280
Accumulated Depreciation	(385,164)	(122,079)		(507,243)
Administrative Building and Equipment	3,484,207	297,148	(27,374)	3,753,981
Accumulated Depreciation	<u>(2,075,172)</u>	<u>(255,676)</u>	<u>27,374</u>	<u>(2,303,474)</u>
Capital Assets Being Depreciated, net	<u>97,001,944</u>	<u>116,353,214</u>	<u>(402,563)</u>	<u>212,952,595</u>
Capital Assets, net	123,055,964	120,198,401	(760,763)	242,493,602

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 7 - CONSTRUCTION in PROGRESS

The Authority has uncompleted projects shown as follows:

Description	Balance January 1, 2013	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2013
Landfill	2,847,115	688,523		3,535,638
Transfer Station	-0-	1,677,199		1,677,199
Support Facilities	-0-	178,199		178,199
Susquehanna Resource Management Complex	355,067	38,278	(355,067)	38,278
Equipment	<u>3,133</u>	<u>1,260,000</u>	<u>(3,133)</u>	<u>1,260,000</u>
	3,205,315	3,842,199	(358,200)	6,689,314

Construction in progress relates to future landfill development, construction of a compressed natural gas (CNG) filling station and new CNG trucks which have been delivered but have not yet been placed into service, and improvement projects at the Susquehanna Resource Management Complex.

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 twenty of the forty-seven properties at a cost of \$4,552,441. The Authority estimates that the current fair market value of the remaining twenty-seven properties, determined without regard to the Authority's facilities and activities, is \$4,076,850. The Authority has resold seven of the twenty properties, net of costs, for \$1,447,215. Those seven properties were purchased by the Authority for \$1,576,598, including settlement charges. The Authority also made improvements to these properties in the amount of \$78,520.

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.

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 payments totaling \$75,000, 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 September 20, 2014, under an extension. 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.

As part of its recycling programs, the County of Dauphin owns and operates a 15,000 square foot materials collection facility known as the Dauphin County Recycling Center, on the Susquehanna Resource Management Complex site. The County of Dauphin owns the building and leases the site upon which it is located from THA pursuant to a February 25, 2004 ground lease. The Ground Lease site is within the Susquehanna Resource Management Complex site and the County of Dauphin is entitled to access to the Ground Lease site. The Ground Lease has an initial term of 29 years, with two 10 year extensions, with annual rental of \$1.00. The DCRC Building may be used only as a materials collection facility and may not be subleased. The County of Dauphin bears all costs related to the DCRC Building and operations. Upon termination of the Ground Lease, the DCRC Building becomes the property of the Authority.

NOTE 9 - OTHER CURRENT LIABILITIES

Balances consisted of the following at December 31, 2013 and 2012:

	2013	2012
Prepaid Disposal Fees	806,134	795,748

NOTE 10 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2013 and 2012:

	2013	2012
Accrued Host Fees	296,556	400,816
Accrued DEP Recycling Fees	504,254	409,342
Accrued County Closure Fee	18,428	17,481
Accrued Haulers Rebate	841,444	826,741
Accrued Prepaid Rebate	45,128	47,320
Accrued Payroll	342,301	397,977
Payroll Taxes and Pension Plan		
Accrued and Withheld	56,710	113,934
Miscellaneous Accruals	<u>374,296</u>	<u>769,748</u>
	2,479,117	2,983,359

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 11 - ACCRUED INTEREST PAYABLE

Accrued interest payable reflects the liability calculated from the anniversary of debt payment to December 31.

NOTE 12 - LONG-TERM DEBT

Long-term debt at December 31, 2013, is summarized as follows:

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

On July 15, 2005, the Authority issued a \$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.

\$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. This note was fully paid at December 31, 2013.

\$105,390,000 Solid Waste Disposal System Revenue Bonds, Series A of 2013

The Solid Waste Disposal System Revenue Bonds, Series A of 2013, were issued to (a) provide funds toward the acquisition of the Susquehanna Resource Management Complex, (b) provide funds for capital improvements at the Susquehanna Resource Management Complex, (c) fund a debt reserve fund, and (d) pay the costs of issuing the bonds. The bonds are payable in various amounts from 2016 through 2033, and bear fixed rates of interest from 2.50% to 5.25%.

\$24,000,000 Guaranteed Authority Bonds (Dauphin County Guaranty) Series B of 2013

The Guaranteed Authority Bonds, Series B of 2013, were issued to provide funds toward the acquisition of the Susquehanna Resource Management Complex. The 2013 Series B bonds are not secured by the revenues, facilities, or assets of the Authority. The bonds are guaranteed by the County of Dauphin, and under that guaranty, the County of Dauphin has pledged its full faith, credit and taxing power. The bonds mature in 2033, and bear interest at 5.0%. Pursuant to a Cooperation Agreement between the Authority and the County of Dauphin, the Authority is responsible for payment of \$240,000 interest per annum on the 2013 Series B bonds, and the County of Dauphin is responsible for the balance.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 12 - LONG-TERM DEBT (Continued)

\$24,000,000 Guaranteed Authority Bonds (Dauphin County Guaranty) Series B of 2013 (Continued)

If, on or before the end of the term of the 2013A Bonds and 2013B Bonds: (a) the County of Dauphin takes all necessary steps to continue legally enforceable waste flow control for an additional ten years with the County of Dauphin tip fees not less than the tip fees in the preceding year (or if the County of Dauphin legally cannot extend waste flow control), then the Authority will, at the Authority's option: (i) repay the unpaid principal of the 2013B Bonds and retain the Susquehanna Resource Management Complex; or (ii) upon the County of Dauphin repayment of the 2013B Bonds, convey the Susquehanna Resource Management Complex to the County of Dauphin; or (b), if the County of Dauphin is legally able to extend waste flow control, but fails to do so, then the County of Dauphin shall repay the unpaid principal of the 2013B Bonds and the Authority shall retain ownership of the Susquehanna Resource Management Complex.

Long-term debt consists of the following at December 31, 2013:

	2005 Note	2006 Series	2013 A Series	2013 B Series	Total
Principal Amount Due	2,305,000	19,685,000	105,390,000	24,000,000	151,380,000
Less: Current Portion	<u>1,130,000</u>	<u>10,935,000</u>	<u>-0-</u>	<u>-0-</u>	<u>12,065,000</u>
Long-Term Principal Due	1,175,000	8,750,000	105,390,000	24,000,000	139,315,000

The following is a summary of the Authority's long-term debt transactions for the year ended December 31, 2013:

Debt Outstanding - January 1, 2013	36,665,000
New Debt Issuance	129,390,000
Repayments	<u>(14,675,000)</u>
Debt Outstanding - December 31, 2013	151,380,000

The annual debt service requirements for all outstanding debt as of December 31, 2013, are as follows:

Year	Principal	Interest	Dauphin County Reimbursement **	Net
2014	12,065,000	7,183,258	(933,333)	18,314,925
2015	9,925,000	6,747,502	(960,000)	15,712,502
2016	3,925,000	6,289,663	(960,000)	9,254,663
2017	4,025,000	6,191,538	(960,000)	9,256,538
2018	4,125,000	6,090,913	(960,000)	9,255,913
2019 - 2023	23,935,000	27,146,565	(4,800,000)	46,281,565
2024 - 2028	30,430,000	20,649,677	(4,800,000)	46,279,677
2029 - 2033	<u>62,950,000</u>	<u>12,128,452</u>	<u>(4,800,000)</u>	<u>70,278,452</u>
	151,380,000	92,427,568	(19,173,333)	224,634,235

** Represents payment from County of Dauphin for interest, in excess of \$240,000 per year, on the 2013 Series B Bonds.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 12 - LONG-TERM DEBT (Continued)

All bonds and bank notes, except the 2013 Series B Bonds, 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.

NOTE 13 - OTHER LONG-TERM LIABILITIES

Balances consisted of the following at December 31, 2013 and 2012:

	2013	2012
Net Other Postemployment Benefits (OPEB)		
Obligation	434,578	382,208
Nonqualified Deferred Compensation Plan Obligation	373,050	202,905
Escrow Liability	1,350,000	-0-
2006 Original Issue Premium, net of Amortization of \$2,016,301 at December 31, 2013 and \$1,734,739 at December 31, 2012	261,210	542,772
2013A Original Issue Premium, net of Amortization of \$-0- at December 31, 2013	6,872,286	-0-
2013B Original Issue Premium, net of Amortization of \$-0- at December 31, 2013	<u>664,080</u>	<u>-0-</u>
	9,955,204	1,127,885

NOTE 14 - 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 Projects Reserve Fund for future tangible asset replacements and additions. 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, 2013 and 2012, the balance of unrestricted net position is as follows:

	2013	2012
Board Designated Unrestricted Net Position:		
Construction Reserve Fund:		
Cash and Cash Equivalents	949,210	1,044,804
Investments	<u>8,444,147</u>	<u>9,086,274</u>
	9,393,357	10,131,078
Revenue Reserve Fund:		
Cash and Cash Equivalents	42,574	433,806
Investments	<u>7,988,133</u>	<u>7,588,940</u>
	8,030,707	8,022,746
Capital Projects Reserve Fund:		
Cash and Cash Equivalents	5,592,202	908,534
Investments	<u>10,872,384</u>	<u>20,454,936</u>
	16,464,586	21,363,470
Total Board Designated Unrestricted Net Position	33,888,650	39,517,294
Undesignated Unrestricted Net Position	<u>15,080,892</u>	<u>8,690,922</u>
Total Unrestricted Net Position	48,969,542	48,208,216

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - GRANTS

The Authority recognizes grant revenues in the period in which all eligibility requirements have been satisfied. These grants may be subject to compliance requirements and audits, and the Authority may be liable for disallowed expenses. Grant revenues were as follows for the years ending December 31, 2013 and 2012:

	2013	2012
Redevelopment Assistance Capital Program Grant for Acquisition of the Susquehanna Resource Management Complex	6,000,000	-0-
Grants from PA Department of Environmental Protection	168,207	154,047
Other	<u>82,555</u>	<u>-0-</u>
	6,250,762	154,047

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, 2013 and 2012, were \$538,261 and \$511,454, 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, 2013 and 2012, were \$323,565 and \$285,554, respectively.

NOTE 17 - POSTEMPLOYMENT 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 GASB Statement No. 45, the financial statements reflect a long-term liability of \$434,578 and \$382,208 at December 31, 2013 and 2012, respectively, in other long-term liabilities for OPEB obligations.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 17 - POSTEMPLOYMENT 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 (\$806 and \$650 per year in 2013 and 2012, 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 costs on a pay-as-you-go basis.

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:

	2013	2012	2011
Annual Required Contribution	198,453	222,704	132,302
Interest on Net OPEB Obligation	15,288	11,143	8,635
Adjustment to Annual Required Contribution	<u>(45,311)</u>	<u>(33,024)</u>	<u>(21,587)</u>
Annual OPEB Cost	168,430	200,823	119,350
Contributions Made	<u>116,060</u>	<u>74,081</u>	<u>79,757</u>
Increase in Net OPEB Obligation	52,370	126,742	39,593
Net OPEB Obligation - Beginning of Year	<u>382,208</u>	<u>255,466</u>	<u>215,873</u>
Net OPEB Obligation - End of Year	434,578	382,208	255,466

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2011, 2012, and 2013, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation - End of Year
12/31/2011	119,350	67%	255,466
12/31/2012	200,823	42%	382,208
12/31/2013	168,430	69%	434,578

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 17 - POSTEMPLOYMENT 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 - 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 \$3,787,466 and \$3,923,307 at December 31, 2013 and 2012, 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, 2013, the Authority received reimbursement from the fund for various claims totaling \$155,520.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 18 - RISK MANAGEMENT (Continued)

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, 2013, the Authority has not been notified of any experience adjustment or other obligation under the program.

The Authority carries 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 years ended December 31, 2013 and 2012, the Authority remitted a contracted monthly amount to IIC, which remitted 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 pool's 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 \$856,560 in the aggregate. At December 31, 2013, management is not aware of any additional assessments related to the health plan.

NOTE 19 - COMMITMENTS and CONTINGENCIES

Covanta - Lancaster

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. As part of the assignment and assumption of the Covanta Harrisburg Service Agreement for the Susquehanna Resource Management Complex, the Lancaster Service Agreement was extended so that the termination date of both agreements would be December 31, 2017.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Metropolitan Edison

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 Lancaster 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 with Covanta Lancaster, Metropolitan Edison Company could terminate the Service Agreement and such default could involve other material, adverse consequences.

Covanta - Harrisburg

Commensurate with the purchase of the Susquehanna Resource Management Complex discussed in Note 21, the Authority entered into a management and professional services agreement with Covanta Harrisburg, Inc. for the operation of the facility for the period from December 23, 2013 through December 31, 2017. The agreement requires that Covanta Harrisburg, Inc. cause the facility to continually meet certain performance standards and specifies various consequences if it does not do so. If the Authority were to default in performance of its obligations under the agreement, such default could cause termination of the agreement and involve other material, adverse consequences.

Assignment and Assumption of City of Harrisburg Waste Disposal Agreement

In connection with the acquisition of the Susquehanna Resource Management Complex discussed in Note 21, the Authority assumed obligations for disposal and processing of MSW generated in the City of Harrisburg. The agreement between the Authority and the City of Harrisburg is for a term of twenty years, ending in 2033, which term shall extend for a maximum of ten additional years if the County of Dauphin extends waste flow control regulations beyond 2033. The City of Harrisburg shall collect and deliver, or cause to be collected and delivered, all regulated municipal waste, as defined in the agreement, generated within the City of Harrisburg to the Susquehanna Resource Management Complex, and the Authority is obligated during the term to accept, transfer, process or dispose of all such waste. The tipping fee rate charged by the Authority to the City of Harrisburg shall be \$190 per ton through 2018, \$195 per ton in 2019, and shall be adjusted each year thereafter according to the change in the Consumer Price Index. These fees may be increased to accommodate a change in law. If the City of Harrisburg delivers fewer than 35,000 tons of regulated municipal waste to the Susquehanna Resource Management Complex in any calendar year, the City of Harrisburg must pay to the Authority any shortfall in tipping fees as though 35,000 tons had been delivered. If the City delivers greater than 38,000 tons of regulated municipal waste to the Susquehanna Resource Management Complex, the Authority will pay a rebate to the City of Harrisburg of \$100 for each ton delivered in excess of 38,000 tons.

County of Dauphin Cooperation Agreement

In connection with the acquisition of the Susquehanna Resource Management Complex discussed in Note 21, the Authority entered into a cooperation agreement with the County of Dauphin. The cooperation agreement sets limits on the per ton tipping fees that the Authority may charge for MSW generated within the County of Dauphin (except for MSW generated in the City of Harrisburg, which fees are set according to the previous paragraph) as follows: 2013 - \$77.09; 2014 through 2016 - \$80.00; 2017 through 2019 - \$85.00; 2020 - \$90.00. The limit will be adjusted thereafter for changes in the Consumer Price Index. These limits may also be changed to accommodate a change in law. Should the tipping fees on regulated MSW generated in the County of Dauphin not produce annual revenues in the following amounts, the County of Dauphin is required to pay any shortfall to the Authority: 2014 and 2015 - \$10,132,000; 2016 - \$10,932,000; 2017 through 2019 - \$11,615,250; 2020 - \$12,298,500. The minimum annual revenues will be adjusted for changes in the Consumer Price Index each year thereafter.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Electric Plant Lease and Related Agreement

Commensurate with the acquisition of the Susquehanna Resource Management Complex discussed in Note 21, the Authority entered into an agreement to lease to Columbia Borough, Pennsylvania certain assets of the Susquehanna Resource Management Complex which generate electricity from the steam generated by the mass burn facility (the "Electric Plant") for monthly rental of \$65,000. The term of the lease is for twenty years, expiring in 2033, and automatically renews for additional five-year renewal periods unless otherwise terminated. Pursuant to the term of the lease, the Authority retains the obligations to maintain and repair the Electric Plant, and to pay all taxes, assessments, and similar charges related thereto. In connection with the lease, Columbia Borough pays \$2.07 per 1,000 pounds of steam output of the mass burn facility, and sells the generated electricity to the Commonwealth of Pennsylvania, Department of General Services (DGS). All payments by DGS for electricity so purchased are deposited by a third party energy manager into an escrow account after deducting management fees. From the escrow account, the following amounts due under the arrangement and related agreements, in order of priority, are paid: (1) payments due to the electric plant operator; (2) \$4,168 per month payable to Columbia Borough; (3) \$65,000 per month plant rent payable to the Authority; and (4) \$2.07 per 1,000 pounds of steam output of mass burn facility used by the Electric Plant. In the event that amounts deposited to the escrow account are insufficient to provide \$50,000 to Columbia Borough in any twelve-month period, the Authority is obligated to pay any shortfall. Amounts due for rent and steam purchases are non-recourse as to Columbia Borough's revenues and assets, except to the extent available in the escrow account. The Authority may terminate this agreement for convenience upon 120 days' notice.

In conjunction with the lease of the Electric Plant, the Authority consented to the provisions of an agreement between Columbia Borough and the DGS for the purchase and sale of approximately 95% of the electricity generated by the electric plant, at established prices through 2033. Effective 2024, the Authority may be required to make deposits to a "clawback" account, for the benefit of DGS, in years that the contracted rate for the purchase of electricity exceeds the market rate. The Authority is eligible for credits for years in which the market rate for electricity exceeds the contracted rate, and the Susquehanna Resource Management Complex has produced net income insufficient to provide predetermined debt service coverage.

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, 2013 and 2012. At each reporting date, the liability recognized is based upon capacity utilized to-date at each site.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Landfill Closure and Post-Closure Care Costs (Continued)

Closure tasks are carried on throughout the periods the landfill is accepting wastes; post-closure monitoring and maintenance costs are incurred for thirty years after all closure requirements are approved by a regulatory agency and the facility is no longer accepting wastes. At December 31, 2013, the Authority reports two active sites, Frey Farm Landfill and Susquehanna Resource Management Complex Ashfill, and one closed site, Creswell Landfill. Estimated future closure and post-closure care costs of active sites are as follows at December 31:

	2013	2012
Frey Farm Landfill		
Total Estimated Closure and Post-Closure Costs	17,355,541	17,178,541
Capacity Used at December 31	<u>72.6%</u>	<u>70.1%</u>
Closure and Post-Closure Costs Recognized	12,608,454	12,042,859
Closure and Post Closure Costs Paid To-Date	<u>7,145,448</u>	<u>7,145,448</u>
Net Liability	5,463,006	4,897,411
Closure and Post-Closure Costs Remaining to be Recognized	4,747,087	5,135,682
Date that Capacity will be Reached	2019	2019
 Susquehanna Resource Management Complex Ashfill		
Total Estimated Closure and Post-Closure Costs	2,635,000	n/a
Capacity Used at December 31	<u>86.5%</u>	
Closure and Post-Closure Costs Recognized	2,635,000 **	
Closure and Post Closure Costs Paid To-Date	<u>-0-</u>	
Net Liability	2,635,000	
Closure and Post-Closure Costs Remaining to be Recognized	-0-	
Date that Capacity will be Reached	2015 **	

** The Authority does not intend to fill the remaining capacity at the Susquehanna Resource Management Complex Ashfill, and has therefore recognized 100% of total estimated closure and post-closure costs at December 31, 2013. However, the Authority has estimated the date capacity will be reached assuming the ashfill is used for disposal of residue from Susquehanna Resource Management Complex operations.

The estimate of 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 19 - COMMITMENTS and CONTINGENCIES (Continued)

Landfill Closure and Post-Closure Care Costs (Continued)

The components of closure and post-closure care expense (income) in 2013 and 2012 are as follows:

	2013	2012
Closure and Post-Closure Care - Net Increase in Estimate of Closure and Post-Closure Care Liability		
Frey Farm Landfill	565,595	39,509
Susquehanna Resource Management Complex Ashfill	-0-	n/a
Post-Closure Care - Creswell Landfill		
Difference Between Actual and Estimated Costs - Current Year	(10,391)	(10,979)
Net Decrease in Estimate of Closure and Post-Closure Care Liability	<u>(79,000)</u>	<u>(26,000)</u>
	(89,391)	(36,979)

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 guarantee payment of additional captive insurance premiums to the Pennsylvania Department of Transportation in connection with a roadway repaving project, and to Manheim Township in connection with the construction of a compressed natural gas filling station. At December 31, 2013, the letters of credit issued totaled \$16,959,865 and are secured by deposits of \$17,807,858 (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, 2013
Frey Farm Landfill	9,447,860	9,447,860
Susquehanna Resource Management Complex Ashfill	3,202,264	3,202,264
Creswell Landfill	3,102,764	3,102,764
Waste-to-Energy Facility - Lancaster	498,921	498,921
Waste-to-Energy Facility - Dauphin	251,589	251,589
Transfer Station	100,537	100,537
Liquid Treatment Facility	<u>36,179</u>	<u>36,179</u>
Total Closure Collateral	16,640,114	16,640,114
Compressed Natural Gas Filling Station Project	161,385	161,385
Captive Insurance Premium	156,974	156,974
Roadway Repaving Project	<u>1,392</u>	<u>1,392</u>
	16,959,865	16,959,865

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - 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. The Authority donated \$31,651 and \$32,044 to the Bainbridge Fire Company pursuant to this commitment during the years ended December 31, 2013 and 2012, respectively. The Authority estimates that the remaining donations over the term of the agreement will be \$474,565.

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 \$57,304 and \$57,929 to the Susquehanna Heritage Corporation during the years ended December 31, 2013 and 2012, respectively. The Authority estimates that its remaining obligation under the agreement is \$74,000.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - 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.

On April 30, 2007, in United Haulers Association, Inc. v. Oneida-Herkimer Solid Waste Management Authority ("*Oneida-Herkimer*"), the United States Supreme Court upheld a county flow control ordinance which directed all waste generated within New York's Oneida and Herkimer counties to municipal authority owned facilities. Previously, on May 16, 1994, in C&A Carbone, Inc. v. Town of Clarkstown ("*Carbone*"), the United States Supreme Court determined that a flow control ordinance adopted by the Town of Clarkstown, New York, which directed waste to a privately owned facility discriminated against interstate commerce and was invalid as being in violation of the Commerce Clause of the United States Constitution. Subsequent to the *Carbone* decision, numerous lawsuits were filed in various lower federal and state courts challenging the validity of waste flow control arrangements. *Oneida-Herkimer* held that *Carbone* had not decided the flow control issue as to public facilities. The Authority owns all of the facilities to which waste is directed by flow control, including the transfer station, all landfills and both waste-to-energy facilities. Both waste-to-energy facilities are operated by a private company under contract with the Authority. The Authority's integrated solid waste management and disposal system resembles the public facility waste flow control upheld in *Oneida-Herkimer* more closely than the private facility waste flow control overturned in *Carbone*. The Authority's specific waste flow control system has never been challenged or reviewed by any specific litigation. Dauphin County's designation of the Susquehanna Resource Recovery Facility as Dauphin County's designated processing and disposal facility has not been challenged or reviewed by any specific litigation since it occurred in 2004.

Unconditional Purchase Obligation

In connection with the Solar Power Purchase Agreements and a Lease 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, 2013, the Authority purchased \$22,478 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
2014	24,590	2,774,183
2015	25,761	2,585,034
2016	26,346	2,395,885
2017	84,894	2,206,737
2018	84,894	2,079,270
2019 - 2023	471,308	1,949,234 - 1,402,356
2024 - 2028	588,403	1,258,681 - 544,438
2029 - 2031	395,196	495,692 - 168,538
	1,701,392	

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Unconditional Purchase Obligation (Continued)

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 20 - 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, 2013 and 2012:

	2013		2012	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer A	6,621,059	1,051,448	6,010,575	1,001,220
Customer B	4,910,845	426,345	4,819,637	363,671
Customer C	n/a	n/a	3,607,945	281,573

n/a: not a major customer in 2013

Energy revenues include transactions with a major customer as follows for the years ended December 31, 2013 and 2012:

Customer D	12,121,072	1,859,205	12,523,588	2,238,210
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NOTE 21 - ACQUISITION of SUSQUEHANNA RESOURCE MANAGEMENT COMPLEX

On December 23, 2013, the Authority acquired the mass burn, waste processing, electric generation, and ash disposal facility assets of The Harrisburg Authority, located in neighboring Dauphin County, Pennsylvania (collectively the Susquehanna Resource Management Complex). The acquisition provides the Authority with additional capacity to meet the needs of a growing population in Lancaster County, and brings a regional solution to waste management. A summary of the assets acquired, liabilities assumed, and consideration provided is as follows:

Consideration Paid in Cash	122,065,273
Recorded Value of Capital Assets Acquired	121,246,446
Closure and Post-Closure Care Funds Received	3,453,827
Closure and Post-Closure Care Obligation	2,635,000

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 21 - ACQUISITION of SUSQUEHANNA RESOURCE MANAGEMENT COMPLEX (Continued)

Additionally, the following items were acquired, with no value assigned in the transaction: environmental and operating permits, third-party hauler agreements, operations and management agreements, and easements. As part of the acquisition, the Authority paid seller closing costs of \$1,600,000.

As part of the Act 47 Recovery Plan for the City of Harrisburg, the Authority was selected in a competitive process by THA and the Receiver for the City of Harrisburg (the "Receiver") to acquire the Susquehanna Resource Management Complex from THA. Pursuant to an Asset Purchase Agreement ("APA") between the Authority, THA and the Receiver, the Authority purchased the Susquehanna Resource Management Complex on December 23, 2013.

The acquisition price paid by the Authority pursuant to the Asset Purchase Agreement was used by THA, together with other available moneys, to retire all of the outstanding bonds issued by THA for the Harrisburg Resource Recovery Facility and provide for the release of the liens on the Facility. The APA contained closing conditions which were met at closing, as follows:

- 1) Approval of the transaction, and specifically the APA and the City Waste Disposal Agreement, by the Commonwealth Court of Pennsylvania as part of approval of the Recovery Plan;
- 2) Execution of a steam purchase and sale agreement between the Authority and the Borough of Columbia, Lancaster County, Pennsylvania;
- 3) Execution of an electricity power purchase agreement between the Borough of Columbia, Lancaster County, Pennsylvania and the Commonwealth of Pennsylvania's Department of General Services and approval of that agreement by the Attorney General of the Commonwealth of Pennsylvania;
- 4) Award of a Commonwealth of Pennsylvania Redevelopment Community Assistance Program grant to the Authority as subgrantee in the amount of \$8,000,000 to be used for capital improvements at the Susquehanna Resource Management Complex;
- 5) Revision of the County of Dauphin's Act 101 Municipal Solid Waste Plan and Municipal Waste Management Ordinance to delegate Dauphin County's responsibility to assure adequate processing and disposal capacity for MSW to the Authority and to designate the Susquehanna Resource Management Complex as the designated facility for the disposal of all Dauphin County generated MSW;
- 6) Execution of a 20 year Waste Disposal Agreement with the City of Harrisburg;
- 7) Execution of a 20 year Cooperation Agreement and Delegation Agreement with the County of Dauphin;
- 8) Amendment and Assignment of the Susquehanna Resource Management Complex Management and Professional Services Agreement with Covanta Harrisburg, Inc. from THA to the Authority.
- 9) Transfer of \$8,000,000 of funds held by THA to the Authority (this obligation was met by an \$8,000,000 purchase price reduction at closing);
- 10) Settlement of claims between THA and creditors and release of all creditor liens on the Susquehanna Resource Management Complex; and

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 21 - ACQUISITION of SUSQUEHANNA RESOURCE MANAGEMENT COMPLEX (Continued)

11) PaDEP transfer of permits held by THA to the Authority.

NOTE 22 - 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 independent 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, 2013 and 2012, and our report thereon dated February 24, 2014, 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, 2011, 2010, and 2009. In our reports dated February 28, 2012, March 7, 2011, and February 9, 2010, 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 46 and the concise statements for publication on page 47 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 pages 46 and 47 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

February 24, 2014
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP
TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Lancaster County Solid Waste Management Authority

SCHEDULES of CONDENSED REVENUES and EXPENSES

Years Ended December 31, 2013, 2012, 2011, 2010, and 2009

	2013	2012	2011	2010	2009
OPERATING REVENUES					
Tipping Fees	\$ 36,528,464	\$ 36,739,546	\$ 37,913,369	\$ 37,466,392	\$ 38,933,119
Energy	12,366,845	12,721,735	12,394,865	11,394,917	11,800,032
Transportation and Other	<u>3,312,889</u>	<u>3,460,722</u>	<u>3,430,220</u>	<u>3,083,160</u>	<u>2,401,304</u>
Total Operating Revenues	52,208,198	52,922,003	53,738,454	51,944,469	53,134,455
OPERATING EXPENSES					
Waste-to-Energy Facility	21,586,995	22,066,779	21,613,714	20,296,716	20,047,069
Landfill	3,519,757	3,543,805	3,671,292	3,629,414	3,813,546
Transfer Station Complex	3,132,300	3,218,345	3,098,862	2,918,545	2,561,069
Susq. Resource Mgmt. Complex	439,348	-0-	-0-	-0-	-0-
Household Hazardous Waste	341,862	290,841	280,577	321,515	274,531
Closure and Post-Closure Care	479,434	6,949	329,593	1,803,715	(458,091)
Depreciation and Amortization	<u>7,667,655</u>	<u>7,633,557</u>	<u>7,944,542</u>	<u>7,523,662</u>	<u>7,803,536</u>
Total Operating Expenses	37,167,351	36,760,276	36,938,580	36,493,567	34,041,660
SUPPORT EXPENSES	<u>14,009,625</u>	<u>9,631,403</u>	<u>8,971,611</u>	<u>9,977,152</u>	<u>8,388,891</u>
Total Operating and Support Expenses	<u>51,176,976</u>	<u>46,391,679</u>	<u>45,910,191</u>	<u>46,470,719</u>	<u>42,430,551</u>
OPERATING INCOME	1,031,222	6,530,324	7,828,263	5,473,750	10,703,904
INTEREST and INVESTMENT EARNINGS	309,060	1,196,525	2,013,009	1,697,921	1,665,361
INTEREST EXPENSE	(1,538,259)	(1,746,862)	(1,959,294)	(2,193,414)	(5,512,186)
NET OTHER NON-OPERATING REVENUES	<u>6,782,293</u>	<u>585,889</u>	<u>351,561</u>	<u>1,951,694</u>	<u>3,715,002</u>
CHANGES in NET POSITION	<u><u>\$ 6,584,316</u></u>	<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>

See independent auditors' report on supplementary information.

Lancaster County Solid Waste Management Authority
Concise Statements for Publication

STATEMENTS of NET POSITION
December 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets	\$ 50,045,130	\$ 50,654,827
Restricted Assets	31,243,310	17,108,642
Other Assets	6,881,164	6,975,081
Real Estate, Facilities, and Equipment	<u>242,493,602</u>	<u>123,055,964</u>
TOTAL ASSETS	330,663,206	197,794,514
LIABILITIES and NET ASSETS		
Current Liabilities	20,663,697	23,529,235
Long-Term Liabilities	<u>158,114,210</u>	<u>28,964,296</u>
TOTAL LIABILITIES	<u>178,777,907</u>	<u>52,493,531</u>
NET POSITION	<u>\$ 151,885,299</u>	<u>\$ 145,300,983</u>

STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET POSITION
Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES	\$ 52,208,198	\$ 52,922,003
OPERATING and SUPPORT EXPENSES	<u>51,173,524</u>	<u>46,388,227</u>
OPERATING INCOME	1,034,674	6,533,776
NET NON-OPERATING REVENUES	<u>5,549,642</u>	<u>32,100</u>
CHANGES in NET POSITION	<u>\$ 6,584,316</u>	<u>\$ 6,565,876</u>

See independent auditors' report on supplementary information.