

Lancaster County Solid Waste Management Authority

Years Ended December 31, 2014 and 2013



TROUT, EBERSOLE & GROFF_{LLP}

CPAs | BUSINESS ADVISORS

SERVICE | ANSWERS | TRUST

Lancaster County Solid Waste Management Authority

Lancaster, Pennsylvania

Years Ended December 31, 2014 and 2013

BOARD MEMBERS - 2014

Karen M. Weibel, Chair

J. Scott Ulrich, Vice Chair

William K. Ebel, Jr., Treasurer

Barbara B. Hammel, Secretary

Joseph R. Deerin

Steve A. Dzurik

R. Edward Gordon

Lester O. Houck

John K. Musser

MANAGEMENT STAFF

James D. Warner - Chief Executive Officer

Robert B. Zorbaugh - Chief Operating Officer

Gary M. Pruden - Chief Financial Officer

Thomas F. Adams - Senior Manager, Business Development, Planning and Recycling

Brooks K. Norris - Senior Manager, Technical Services

Carol A. Olson - Senior Manager, Accounting and Administration

David M. Wilhelm - Senior Manager, Capital Projects

Hartman, Underhill & Brubaker, LLC - Solicitor

Lancaster County Solid Waste Management Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2014 and 2013

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 - 42
Required Supplementary Information	
Schedule of Funding Progress - Other Postemployment Benefits (OPEB) - Postretirement Health Care Benefits Plan - Unaudited	43
Supplementary Information	
Independent Auditors' Report on Supplementary Information	44
Schedules of Condensed Revenues and Expenses	45
Concise Statements for Publication	46

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, 2014 and 2013, 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 from 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 evaluating the appropriateness of accounting policies 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.

SERVICE | ANSWERS | TRUST

LANCASTER OFFICE: 1705 Oregon Pike, Lancaster, PA 17601 • 717-569-2900 • Fax 717-569-0141
CAPITAL REGION OFFICE: 5000 Ritter Road, Suite 104, Mechanicsburg, PA 17055 • 717-697-2900 • Fax 717-697-2002

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, 2014 and 2013, 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

Required Supplementary Information

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 43, 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.

March 4, 2015
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, 2014.

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 42 of this report.

SUMMARY

2014 was a very active year as the Authority successfully integrated the operations of the Susquehanna Resource Management Complex (SRMC). With the SRMC operations fully integrated, the Authority now manages an efficient system of consistent solid waste processing and disposal across a broader geographical footprint. Several capital improvement projects were initiated at SRMC during 2014 with completion anticipated in 2015. These projects have been undertaken to significantly improve operational efficiency, internal plant performance and site appearance.

The Authority also completed the construction of a compressed natural gas (CNG) fueling facility at its' Transfer Station Complex in Lancaster and placed fourteen (14) new CNG truck tractors into service in May upon the opening of the new CNG fueling site. Two (2) CNG trucks used for ash hauling were also purchased and put into use in November. A fast fill fueling system was also put in place to serve both our waste and non-waste customers.

The financial performance exceeded budgeted expectations for the year as operating income improved from 2013. Overall operating revenue, with the full integration and servicing of SRMC operations, totaled \$80,418,684 for the year. The Authority's net position remains strong with an overall net position of \$152,187,105. All capital expenditures were funded with both operating cash and reserve funds specifically designated for capital projects.

The Authority received a total of 892,826 tons of waste, including recycling material which represents a 50% increase over 2013, primarily as a result of the SRMC acquisition and associated tonnage.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL REVIEW

The Authority's net position remains strong as assets exceed liabilities by \$152,187,105. Overall assets decreased by \$9,925,581 primarily due to a full year's depreciation of the SRMC assets placed into service on 12/23/2013 (asset acquisition date of SRMC), as well as the write-off of certain SRMC buildings which were demolished in anticipation of future ash landfill expansion. Total debt (current and long-term) was reduced by \$12,065,000 to a balance of \$139,315,000.

A majority of the Authority's net position (about 90%) is comprised of two major components: 1) investment in capital assets (net of associated debt) and 2), investments in board designated investment reserve funds which represent \$32,400,689 of the unrestricted net position total. These investment reserves consist of funds that have been set aside for future capital and construction project funding.

Capital expenditure investment was \$11,647,141 while asset sales provided \$687,130 in proceeds. All Authority capital expenditures were made from operating cash and unrestricted reserve funds.

	Net Position	
	2014	2013
Current and Other Assets	\$ 82,691,039	\$ 88,169,604
Capital Assets	<u>238,046,586</u>	<u>242,493,602</u>
TOTAL ASSETS	320,737,625	330,663,206
Long-Term Liabilities Outstanding	138,794,832	149,270,204
Landfill Closure and Post-Closure Costs (Current and Long-Term)	10,667,814	8,968,006
Other Liabilities	<u>19,087,874</u>	<u>20,539,697</u>
TOTAL LIABILITIES	168,550,520	178,777,907
Invested in Capital Assets, net of Related Debt	103,731,542	95,425,905
Restricted	7,232,153	8,839,852
Unrestricted	<u>41,223,410</u>	<u>47,619,542</u>
TOTAL NET POSITION	\$ 152,187,105	\$ 151,885,299

The Authority's net position increased by \$301,806 during the year. Operating income improved to \$6,727,163 compared to 2013's operating income of \$1,031,222. Net non-operating expenses of \$6,425,357 were recorded in 2014.

Total operating revenues of \$80,418,684 increased \$28,210,486 (54%) from 2013 as total waste tons delivered increased 50% with the addition of the SRMC business. Tipping fees and energy sales account for the majority of operating revenue (95%). SRMC operations accounted for 35.7% of all tipping fee revenue and 35.3% of energy sales. Included in SRMC energy revenue is the sale of renewable energy credits of \$495,303 based on contractual agreements for the production of megawatt hours (MWH) at the SRMC facility. Other operating revenue was up 57.8% on better than expected ferrous and non-ferrous metal recovery at Lancaster's Waste-to-Energy plant as well as ferrous metal recovery from the additional processing volume brought on by the SRMC acquisition.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL REVIEW (continued)

Total operating and support expenses were \$73,691,521, up by \$22,514,545 (44%) from 2013 mostly in the added operations expense of SRMC, including \$4,054,774 of non-cash depreciation expense on the facility's assets which were placed into service on 12/23/2013. Landfill related closure and post-closure care costs recognized under GASB accounting guidelines increased \$1,233,775, primarily the result of higher estimates for future leachate treatment costs and an increase in the actual percentage of area filled at the FFLF during 2014. General and administrative costs were down largely from one-time acquisition costs that were recognized as expense in 2013.

Net non-operating expenses were \$6,425,357 consisting primarily of debt interest and the net loss on the disposal of assets offset by investment gains and other non-operating revenue. The loss recognized on the disposal of assets \$(3,139,844) primarily represents two transactions; 1) the write-off of certain SRMC buildings (referred to above) and 2), book loss associated with the sale of a non-operating property under a previous agreement. Investment earnings were \$1,049,363 as compared to 2013 earnings of \$309,060. The improved earnings relates to the impact of adjusting the Authority investments (comprised primarily of US treasury notes, agency/mortgage backed debt and municipal obligations) to market value at the end of 2014, relative to the impact of adjusting to a lower market at the end of 2013.

	Change in Net Position	
	2014	2013
Revenues:		
Tipping Fees	\$ 57,350,288	\$ 36,528,464
Energy	18,706,329	12,366,845
Transportation	1,459,430	1,473,464
Other Revenues	<u>2,902,637</u>	<u>1,839,425</u>
TOTAL OPERATING REVENUE	80,418,684	52,208,198
Expenses:		
Operating Expenses, Excluding Depreciation	53,157,352	29,499,696
Support Expenses, Excluding Depreciation	8,266,986	13,922,914
Depreciation Expense	<u>12,267,183</u>	<u>7,754,366</u>
TOTAL OPERATING EXPENSES	73,691,521	51,176,976
Non-Operating Revenues (Expenses):		
Investment Earnings	1,049,363	309,060
Interest Expense	(5,591,063)	(1,538,259)
Gain / (Loss) on Asset Disposals	(3,139,844)	141,645
Other Non-Operating Revenue	<u>1,256,187</u>	<u>6,640,648</u>
NET NON-OPERATING REVENUE (EXPENSE)	(6,425,357)	5,553,094
Increase in Net Position	301,806	6,584,316
Net Position:		
Net Position - January 1	<u>151,885,299</u>	<u>145,300,983</u>
NET POSITION - DECEMBER 31	\$ 152,187,105	\$ 151,885,299

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

CAPITAL ASSETS, DEBT ADMINISTRATION and LONG-TERM OBLIGATIONS

Capital Assets

The Authority invested \$11,647,141 in capital assets through various projects and equipment purchases in 2014. 33% of the capital investment was into improvements to the SRMC plant facility and general site in order to achieve better operating efficiency and appearance. Equipment investment at SRMC included the purchase of new ash transfer trucks and other equipment marked for replacement.

Other significant capital investments made in 2014 related to the completion of work on a new compressed natural gas (CNG) fueling infrastructure and operation at the Authority's Transfer Station Complex (TSC). In addition, the Authority paid for and took possession of eight (8) CNG fueled tractors to bring the total CNG tractor fleet to 14 (6 tractors were purchased and received late in 2013). The CNG site began operations in May for both internal fueling of the Authority's fleet as well as offering retail fueling to other fleets and businesses. The total CNG infrastructure and truck investments represented about 29% of 2014's capital expenditures.

Other capital investments included operating and support equipment purchases for the TSC, Frey Farm Landfill (FFLF), and Waste-to-Energy (WTE) facility comprising about 14% of the total 2014 capital spending. Included with 2014's equipment investment was the purchase of two (2) new CNG ash transfer trucks for WTE plant operations that will use the new CNG facility for fueling. The remaining 24% of the capital spending relates to various other site and property improvements.

Proceeds from property and equipment sales were \$687,130. Total depreciation expense for 2014 was \$12,267,183 which includes a full year of depreciation on SRMC assets acquired on December 23, 2013. A comparison of capital assets as of December 31, 2014 and December 31, 2013, is shown below.

	Capital Assets	
	2014	2013
Susquehanna Resource Management Complex (SRMC)	\$ 115,023,746	\$ 120,636,410
Waste-to-Energy Facility	45,043,636	49,066,355
Landfill Facility	28,652,481	29,638,080
Transfer Station Facility	18,967,414	17,547,327
Support Facilities	7,881,498	5,900,306
Other Real Estate	4,841,387	5,780,683
Equipment	7,173,910	4,146,640
Administrative Building and Equipment	1,299,818	1,533,505
Construction in Progress	<u>9,162,696</u>	<u>8,244,296</u>
TOTAL CAPITAL ASSETS	\$ 238,046,586	\$ 242,493,602

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, 2014, the Authority had \$139,315,000 of outstanding bond principal liability of which \$129,390,000 reflects the debt associated with the acquisition of the SRMC assets on December 23, 2013. Total principal redemption in 2014 was \$12,065,000, all associated with the 2005 and 2006 debt obligations. The remaining 2005 and 2006 Authority principal debt of \$9,925,000 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 \$10,667,814 for these activities.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

REVIEW of OPERATIONS

Facilities

With the full integration of the SRMC assets and operations, the Authority now owns four (4) primary facilities which together constitute the entire solid waste processing and disposal system (the System). In addition to the acquired SRMC assets, the other primary facilities are the Transfer Station Complex (TSC), the Frey Farm Landfill (FFLF) and the Waste-to-Energy (WTE) facility. In 2014, the System received 892,826 tons of waste which includes refuse, construction & demolition, residual and recyclable material. This a 50% increase over 2013.

The total waste of 892,826 tons includes 318,150 tons of waste delivered to the TSC which was transferred to the WTE facility, FFLF or several privately owned and operated recycling facilities. The WTE received 402,997 tons of waste both delivered directly to the facility and transferred in from the TSC while the FFLF received 194,057 tons of waste delivered directly to the landfill or transferred from the TSC or SRMC. There were 284,340 tons of waste received at SRMC. Construction and demolition (C&D) waste received at the SRMC was transferred to the FFLF. All sites met the expectations of the Authority for the purposes of availability and overall operating performance.

The WTE facility generated 214.8 M kWh of electricity which the Authority sold to Metropolitan Edison Company at an average price of \$.0558/kWh. The SRMC facility generated 116.7 M kWh of electricity. Beginning in March, approximately 90% of SRMC's kWh production was sold under contract to the Commonwealth of Pennsylvania's Department of General Services (DGS) at a rate of \$.0412/kWh. Electric not purchased by DGS was sold at market prices. In addition to the direct sale of electric, the SRMC facility also realized revenue from the sale of guaranteed electric capacity and renewable energy credits.

BUSINESS OUTLOOK

Revenue

With the full deployment and integration of SRMC assets in 2014 and daily operation of the facility based in Harrisburg PA, the Authority has expanded its' geographical footprint. In combination with the waste-to-energy plant (WTE) in Bainbridge, PA, Frey Farm landfill (FFLF) in Conestoga, PA and the transfer station complex (TSC) in Lancaster, PA (together referred to as the Lancaster System) the Authority has achieved greater flexibility in operating a fully integrated system to manage municipal and commercial solid waste streams. Collectively, this constitutes the entire solid waste processing and disposal system.

Approximately 80% of SRMC's operating revenue is covered under existing, long term (20 year) waste disposal agreements for refuse delivery and an electric sales contract with the Commonwealth of Pennsylvania's Department of General Services. Refuse and C&D (referred to as Municipal Solid Waste - MSW) in the Lancaster System is covered under five (5) year agreements with private haulers that deliver waste generated in Lancaster County, to the Authority. The current agreement expires at the end of 2017. Electricity produced at the WTE facility is sold pursuant to an electric sales agreement that expires on February 1, 2016. Approximately 77% of the Lancaster System's operating revenue falls under these agreements.

In 2014, the System took delivery of 892,826 tons (MSW, residual waste and recycle material). MSW comprised 78% of all waste tons received and accounted for 83% of total tipping fee revenue. Residual waste streams accounted for 20% of overall system tonnage and approximately 18% of tipping fee revenue. Residual waste is received through contracts with the waste generator, waste broker, or waste transporter. Inbound recyclable material received from private haulers accounts for 2% of the total waste tons.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

BUSINESS OUTLOOK (Continued)

Revenue (continued)

The Authority earned \$18,706,329 in energy related revenues in 2014, which accounted for 23% of all operating revenue. The majority of energy related revenue, about 97%, is derived from the production and sale of electricity at both the WTE and SRMC plants. Other energy revenue sources include the sale of renewable energy credits (REC's) from electric production at the SRMC plant. These credits are contracted to pay a fixed price for a maximum amount of megawatts produced monthly. The current contract runs through May 31, 2018 and includes annual increases to the price paid for megawatts produced. In 2014, this new revenue source totaled \$495,303 (about 2.6% of the total energy revenue). At FFLF, recovery and sale of methane gas and wind converted to electricity generated \$104,054 in revenue.

Overall, the Authority has positioned itself strategically to ensure a diverse and steady flow of revenue that will enable the organization to provide for the capital and operational needs of the system for the future through a sound financial system.

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 2015 is \$11,780,700. The major component of the capital plan for 2015 involves continued work to substantially complete all previously planned projects at SRMC in order to bring the facility up to Authority standards. The total budgeted for these projects is \$8,280,000 and includes work to complete the site's transfer, maintenance and administration (TMA) building and internal plant upgrades that will improve operational efficiency and electric-for-sale output. The remaining capital plan relates to the replacement of transfer trailers and other site operating equipment as well as various facility improvements.

Planned asset sales of \$2,478,000 represent the anticipated sale of 57 acres of property adjacent to the WTE facility to Perdue Agribusiness, Inc. While this transaction has been on hold since 2011, recent agreements between Perdue and DEP officials have eliminated the most significant regulatory matters that delayed the commencement of the project. Management expects the sale transaction to close in the spring of 2015.

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, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 15,281,044	\$ 8,747,226
Investments	22,502,481	27,335,664
Accounts Receivable, net of Provision for Bad Debts of \$10,000 at 2014 and 2013	9,487,406	6,907,865
Grants Receivable	446,842	6,000,000
Notes Receivable, Current Portion	5,808	388,675
Interest Receivable	165,907	153,819
Inventory	14,892	17,339
Other Current Assets (Note 3)	793,783	494,542
Total Current Assets	48,698,163	50,045,130
RESTRICTED ASSETS		
Investments with Trustee (Note 4)	12,062,297	12,080,599
Interest Receivable	2,904	4,853
Total Restricted Assets with Trustee	12,065,201	12,085,452
Escrow Deposits	1,459,341	1,350,000
Closure and Post-Closure Care Funds	17,899,967	17,807,858
Total Restricted Assets	31,424,509	31,243,310
OTHER ASSETS		
Notes Receivable, net of Current Portion (Note 5)	2,560,929	6,856,737
Deferred Charges, net of Amortization of \$205,562 at 2014 and \$188,573 at 2013	7,438	24,427
Total Other Assets	2,568,367	6,881,164
REAL ESTATE, FACILITIES, and EQUIPMENT (Note 6)		
Waste-to-Energy Facility	139,817,156	139,760,526
Susquehanna Resource Management Complex	119,069,523	120,636,411
Landfill Facility	86,813,674	86,728,242
Transfer Station Facility	24,233,280	22,068,223
Equipment	18,014,335	14,026,602
Support Facilities	9,837,755	7,582,913
Other Real Estate	5,471,995	6,287,927
Administrative Building and Equipment	3,859,195	3,836,980
	407,116,913	400,927,824
Accumulated Depreciation	(178,233,023)	(166,678,518)
Net Depreciable Assets	228,883,890	234,249,306
Construction in Progress (Note 7)	9,162,696	8,244,296
Net Real Estate, Facilities, and Equipment	238,046,586	242,493,602
TOTAL ASSETS	\$ 320,737,625	\$ 330,663,206

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of NET POSITION

(Continued)

December 31, 2014 and 2013

	2014	2013
LIABILITIES and NET POSITION		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt (Note 12)	\$ 9,925,000	\$ 12,065,000
Current Portion of Estimated Post-Closure Care Costs	128,000	124,000
Accounts Payable - Trade	5,426,746	4,989,601
Other Current Liabilities (Note 9)	777,764	806,134
Accrued Expenses (Note 10)	2,662,063	2,479,117
Accrued Interest Payable (Note 11)	<u>296,301</u>	<u>199,845</u>
Total Current Liabilities	19,215,874	20,663,697
LONG-TERM LIABILITIES		
Long-Term Debt, net of Current Portion (Note 12)	136,462,683	147,112,576
Estimated Closure and Post-Closure Care Liability, net of Current Portion	10,539,814	8,844,006
Other Long-Term Liabilities (Note 13)	<u>2,332,149</u>	<u>2,157,628</u>
Total Long-Term Liabilities	149,334,646	158,114,210
TOTAL LIABILITIES	<u>168,550,520</u>	<u>178,777,907</u>
NET POSITION		
Net Investment in Capital Assets	103,731,542	95,425,905
Restricted for Closure and Post-Closure Care Costs	7,232,153	8,839,852
Unrestricted (Note 14)	<u>41,223,410</u>	<u>47,619,542</u>
TOTAL NET POSITION	<u>\$ 152,187,105</u>	<u>\$ 151,885,299</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, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Tipping Fees	\$ 57,350,288	\$ 36,528,464
Energy	18,706,329	12,366,845
Transportation	1,459,430	1,473,464
Other	2,902,637	1,839,425
Total Operating Revenues	80,418,684	52,208,198
OPERATING EXPENSES		
Waste-to-Energy Facility	22,476,602	21,586,995
Susquehanna Resource Management Complex	21,426,485	439,348
Depreciation	12,187,390	7,667,655
Landfills	4,016,806	3,522,988
Transfer Station Complex	3,141,323	3,132,300
Closure and Post-Closure Care	1,709,978	476,203
Household Hazardous Waste	386,158	341,862
Total Operating Expenses	65,344,742	37,167,351
SUPPORT EXPENSES		
General and Administrative	8,266,986	13,922,914
Depreciation	79,793	86,711
Total Support Expenses	8,346,779	14,009,625
Total Operating and Support Expenses	73,691,521	51,176,976
OPERATING INCOME	6,727,163	1,031,222
NON-OPERATING REVENUES (EXPENSES)		
Grant Revenues	904,397	6,250,762
Gain (Loss) on Disposal of Assets	(3,139,844)	141,645
Miscellaneous	351,790	389,886
Interest and Investment Earnings	1,049,363	309,060
Interest Expense	(5,591,063)	(1,538,259)
Net Non-Operating Revenues (Expenses)	(6,425,357)	5,553,094
CHANGES in NET POSITION	301,806	6,584,316
NET POSITION		
Beginning of Year	151,885,299	145,300,983
End of Year	\$ 152,187,105	\$ 151,885,299

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 78,124,263	\$ 53,154,582
Payments to Suppliers	(53,484,241)	(37,822,472)
Payments to Employees	<u>(5,704,171)</u>	<u>(4,956,818)</u>
Net Cash Provided by Operating Activities	18,935,851	10,375,292
CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES		
State and Local Grant Income	6,457,555	250,762
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Interest Paid	(6,202,511)	(1,596,022)
Principal Payments	(12,065,000)	(14,675,000)
Proceeds from Issuance of Long-Term Debt	-0-	136,926,366
Payment for Acquisition of Susquehanna Resource Management Complex	-0-	(122,065,273)
Payments for Capital Acquisitions	(11,647,141)	(6,706,321)
Proceeds from Sale of Capital Assets	<u>687,130</u>	<u>547,341</u>
Net Cash Used by Capital and Related Financing Activities	(29,227,522)	(7,568,909)
CASH FLOWS from INVESTING ACTIVITIES		
Receipt of Escrow Funds	(109,341)	-0-
Payments Received on Notes Receivable	4,678,675	19,855
Sales of Restricted Investments	45,140,345	27,312,057
Purchases of Restricted Investments	(45,210,121)	(37,072,382)
Receipts of Interest	1,103,957	1,195,521
Sales of Unrestricted Investments	12,819,046	23,219,222
Purchases of Unrestricted Investments	<u>(8,054,627)</u>	<u>(13,753,314)</u>
Net Cash Provided by Investing Activities	10,367,934	920,959
INCREASE in CASH and CASH EQUIVALENTS	6,533,818	3,978,104
CASH and CASH EQUIVALENTS		
Beginning	<u>8,747,226</u>	<u>4,769,122</u>
Ending	<u>\$ 15,281,044</u>	<u>\$ 8,747,226</u>
NONCASH INVESTING and FINANCING ACTIVITIES		
Restricted Escrow Deposit Received	-0-	1,350,000

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

(Continued)

Years Ended December 31, 2014 and 2013

	2014	2013
RECONCILIATION of OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating Income	\$ 6,727,163	\$ 1,031,222
ADJUSTMENTS to RECONCILE OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	12,267,183	7,754,366
Expensing of Acquisition Costs Previously Capitalized	-0-	355,067
Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Position Included for Cash Flow	351,790	389,886
(Increase) Decrease in:		
Accounts Receivable	(2,579,541)	681,152
Inventory and Other Current Assets	(296,794)	(36,091)
Increase (Decrease) in:		
Current Liabilities	766,242	(150,905)
Estimated Closure and Post-Closure Care Costs	<u>1,699,808</u>	<u>350,595</u>
Total Adjustments	<u>12,208,688</u>	<u>9,344,070</u>
Net Cash Provided by Operating Activities	<u>\$ 18,935,851</u>	<u>\$ 10,375,292</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 2014, revised and updated the Lancaster County Municipal Waste Management Plan 2010 (the "Lancaster 2010 Plan"), 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 2014, 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

Until 2014, the Authority had primarily conducted waste disposal operations in the County of Lancaster. With the acquisition of the Susquehanna Resource Management Complex on December 23, 2013, the Authority expanded 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.

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, 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.

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:

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

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 and have a financial benefit or burden, as defined above. 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.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Deposits

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.

The Authority also holds certain deposits in escrow as required pursuant to the electric plant lease for the Susquehanna Resource Management Complex, as discussed in Note 19.

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 statements of net position. 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities may be included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous fiscal year.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Building and Fixtures	25 to 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, 2014 and 2013, was \$12,267,183 and \$7,754,366, respectively.

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites. These costs totaled \$9,162,696 and \$8,244,296 at December 31, 2014 and 2013, 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.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Adopted in 2014

During the current year, the Authority adopted the provisions of GASB 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 implementation of this statement had no substantive effect on the Authority's 2014 financial statements.

Pending Changes in Accounting Principles

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.

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 pension 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, 2014, \$6,409,466 of the Authority's bank balance of \$14,833,314 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>6,409,466</u>
	6,409,466

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	6,409,466
Plus: Insured Amount	<u>8,423,848</u>
Bank Balance	14,833,314
Deposits in Transit	11,875
Outstanding Checks	<u>(348,808)</u>
Carrying Amount - Bank Balances	14,496,381
Petty Cash	3,400
Money Market Funds	10,276,165
Escrow Deposit in Restricted Assets	(1,350,000)
Certificates of Deposit	<u>(8,144,902)</u>
Total Cash and Cash Equivalents Per Financial Statements	15,281,044

Investments

As of December 31, 2014, the Authority had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)			
		<1	1-5	6-10	10+
Tax Exempt Municipal Bonds	8,000,875	4,332,628	3,668,247		
U.S. Agency Securities	10,183,293	950,294	3,610,677	872,998	4,749,324
U.S. Treasury Securities	24,290,931	5,405,029	15,640,377	3,245,525	
Money Market Mutual Funds	<u>12,089,909</u>	<u>12,089,909</u>	<u> </u>	<u> </u>	<u> </u>
	54,565,008	22,777,860	22,919,301	4,118,523	4,749,324
Raffles Insurance, Ltd. - Redeemable Preference Share	30,900				
Raffles Insurance, Ltd. - Common Share	<u>100</u>				
Total Investments	54,596,008				

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, 2014, the Authority's investments were rated as:

	AAA	AA	A	BBB	Not Rated
Tax Exempt Municipal Bonds	1,065,850	5,154,564	1,503,088	277,373	
U.S. Agency Securities		10,183,293			
U.S. Treasury Securities		24,290,931			
Money Market Mutual Funds	12,089,909				
Other - Raffles Insurance, Ltd.					<u>31,000</u>
	<u>13,155,759</u>	<u>39,628,788</u>	<u>1,503,088</u>	<u>277,373</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 Federal Home Loan Mortgage Corporation obligations and Wells Fargo Advantage Government Money Market Fund. These investments are 9.6% and 15.6% 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, 2014 and 2013, none of the Authority's investments were exposed to custodial credit risk.

Reconciliation of Investments to Financial Statements

Total Investments Per Footnotes	54,596,008
Less: Money Market Funds	(10,276,165)
Add: Certificates of Deposit	<u>8,144,902</u>
Total Investments per Financial Statements	52,464,745

The following schedule summarizes investments and their classifications in the statements of net position at December 31, 2014:

	2014
Unrestricted Assets:	
Investments	22,502,481
Restricted Assets:	
Investments with Trustee	12,062,297
Closure and Post-Closure Care Funds	<u>17,899,967</u>
	52,464,745

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 3 - OTHER CURRENT ASSETS

Balances consisted of the following at December 31, 2014 and 2013:

	2014	2013
Prepaid Insurance	660,842	346,157
Other Prepaid Expenses	<u>132,941</u>	<u>148,385</u>
	793,783	494,542

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, 2014 and 2013:

	2014	2013
Debt Service Reserve Funds	12,062,297	12,080,599

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 was modified December 2014, to reduce the interest rate to 4.5% and reduce the monthly payments to \$1,824, commencing January 2015. A balloon payment of the entire principal balance outstanding, originally December 2011, was extended to December 2019.

Note Receivable from PPL Renewable Energy, LLC (PPLRE)

During 2010, the Authority provided PPLRE with a \$4,650,000 improvement loan, in connection with a certain lease agreement.

PPLRE paid the Authority 6% interest on the outstanding balance of the \$4,650,000 improvement loan. The loan was repaid in full in 2014.

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 note 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 note over 15 years.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 5 - NOTES RECEIVABLE

Note Receivable from MP2 Capital, LLC (Continued)

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, 2014 and 2013, are summarized as follows:

December 31, 2014			
	Current Portion	Long-Term Portion	Total
Mortgage Note Receivable	5,808	354,192	360,000
Notes Receivable from MP2 Capital, LLC	<u>5,808</u>	<u>2,206,737</u>	<u>2,206,737</u>
	5,808	2,560,929	2,566,737
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>388,675</u>	<u>2,206,737</u>	<u>2,206,737</u>
	388,675	6,856,737	7,245,412

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, 2014	Additions	Deletions/ Transfers	Balance December 31, 2014
Capital Assets not Being Depreciated:				
Land and Improvements	22,851,693		(765,136)	22,086,557
Construction in Progress	<u>8,244,296</u>	<u>4,045,260</u>	<u>(3,126,860)</u>	<u>9,162,696</u>
Total Capital Assets not Being Depreciated	31,095,989	4,045,260	(3,891,996)	31,249,253
Capital Assets Being Depreciated:				
Waste-to-Energy Facility	137,357,091	56,630		137,413,721
Accumulated Depreciation	(90,694,178)	(4,079,349)		(94,773,527)
Susquehanna Resource Management Complex	120,636,411	1,029,349	(2,596,237)	119,069,523
Accumulated Depreciation	-0-	(4,045,774)		(4,045,774)
Landfill Facility	67,198,517	265,835		67,464,352
Accumulated Depreciation	(57,090,161)	(1,071,030)		(58,161,191)
Transfer Station Facility	22,044,818	487,858	1,677,199	24,209,875
Accumulated Depreciation	(4,520,897)	(744,970)		(5,265,867)
Equipment	14,026,602	3,655,271	332,462	18,014,335
Accumulated Depreciation	(9,879,958)	(1,661,887)	701,420	(10,840,425)
Support Facilities	7,582,913	2,076,643	178,199	9,837,755
Accumulated Depreciation	(1,682,607)	(273,650)		(1,956,257)
Other Real Estate	5,475,798		(231,198)	5,244,600
Accumulated Depreciation	(507,243)	(126,532)	3,167	(630,608)
Administrative Building and Equipment	3,753,981	30,305	(8,091)	3,776,195
Accumulated Depreciation	<u>(2,303,474)</u>	<u>(263,991)</u>	<u>8,091</u>	<u>(2,559,374)</u>
Capital Assets Being Depreciated, net	<u>211,397,613</u>	<u>(4,665,292)</u>	<u>65,012</u>	<u>206,797,333</u>
Capital Assets, net	242,493,602	(620,032)	(3,826,984)	238,046,586

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, 2014	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2014
Landfill	5,049,138	451,050		5,500,188
Transfer Station	1,677,199	9,087	(1,677,199)	9,087
Administrative Building		23,275		23,275
Support Facilities	178,199		(178,199)	-0-
Susquehanna Resource Management Complex	38,278	2,167,122	(11,462)	2,193,938
Equipment	1,260,000	8,893	(1,260,000)	8,893
Other Real Estate	<u>41,482</u>	<u>1,385,833</u>		<u>1,427,315</u>
	8,244,296	4,045,260	(3,126,860)	9,162,696

Construction in progress relates to future landfill development, improvement projects at the Susquehanna Resource Management Complex, and improvement projects to other real estate.

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 \$4,546,593. The Authority has resold twelve of the twenty properties, net of costs, for \$1,621,830. Those twelve properties were purchased by the Authority for \$1,802,486. 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 \$100,000, the Authority, subject to provisions contained in the agreement, granted to Perdue the right to purchase approximately 57 acres of land adjacent to the Authority's Waste-to-Energy Facility. The option period began on September 20, 2011 and expires March 20, 2015, 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 may 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 (DCRC), on the Susquehanna Resource Management Complex site. The County of Dauphin owns the building and leases the site upon which it is located from the Authority 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, 2014 and 2013:

	2014	2013
Prepaid Disposal Fees	777,764	806,134

NOTE 10 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2014 and 2013:

	2014	2013
Accrued Host Fees	226,987	296,556
Accrued DEP Recycling Fees	583,972	504,254
Accrued County Closure Fee	23,080	18,428
Accrued Haulers Rebate	856,500	841,444
Accrued DGS Fees	155,674	-0-
Accrued Prepaid Rebate	42,574	45,128
Accrued Payroll	393,219	342,301
Payroll Taxes and Pension Plan		
Accrued and Withheld	65,106	56,710
Miscellaneous Accruals	<u>314,951</u>	<u>374,296</u>
	2,662,063	2,479,117

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, 2014, 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.

\$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, 2014:

	2005 Note	2006 Series	2013 A Series	2013 B Series	Total
Principal Amount Due	1,175,000	8,750,000	105,390,000	24,000,000	139,315,000
Less: Current Portion	<u>1,175,000</u>	<u>8,750,000</u>	<u>-0-</u>	<u>-0-</u>	<u>9,925,000</u>
Long-Term Principal Due	-0-	-0-	105,390,000	24,000,000	129,390,000
Original Issue Premiums, Net of Accumulated Amortization					<u>7,072,683</u>
Long-Term Debt, net of Current Portion					136,462,683

The following is a summary of the Authority's long-term debt transactions for the year ended December 31, 2014:

Debt Outstanding - January 1, 2014	151,380,000
New Debt Issuance	-0-
Repayments	<u>(12,065,000)</u>
Debt Outstanding - December 31, 2014	139,315,000

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 12 - LONG-TERM DEBT (Continued)

The annual debt service requirements for all outstanding debt as of December 31, 2014, are as follows:

Year	Principal	Interest	Dauphin County Reimbursement **	Net
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	4,330,000	5,884,663	(960,000)	9,254,663
2020 - 2024	25,100,000	25,981,015	(4,800,000)	46,281,015
2025 - 2029	31,950,000	19,132,414	(4,800,000)	46,282,414
2030 - 2033	<u>55,935,000</u>	<u>8,926,602</u>	<u>(3,840,000)</u>	<u>61,021,602</u>
	139,315,000	85,244,310	(18,240,000)	206,319,310

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

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, 2014 and 2013:

	2014	2013
Net Other Postemployment Benefits (OPEB) Obligation	530,446	434,578
Nonqualified Deferred Compensation Plan Obligation	451,703	373,050
Escrow Liability	<u>1,350,000</u>	<u>1,350,000</u>
	2,332,149	2,157,628

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, 2014 and 2013, the balance of unrestricted net position is as follows:

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - UNRESTRICTED NET POSITION (Continued)

	2014	2013
Board Designated Unrestricted Net Position:		
Construction Reserve Fund:		
Cash and Cash Equivalents	2,597,539	949,210
Investments	<u>6,581,358</u>	<u>8,444,147</u>
	9,178,897	9,393,357
Revenue Reserve Fund:		
Cash and Cash Equivalents	1,295,436	42,574
Investments	<u>6,779,420</u>	<u>7,988,133</u>
	8,074,856	8,030,707
Capital Projects Reserve Fund:		
Cash and Cash Equivalents	6,036,232	5,592,202
Investments	<u>9,110,704</u>	<u>10,872,384</u>
	15,146,936	16,464,586
Total Board Designated Unrestricted Net Position	32,400,689	33,888,650
Undesignated Unrestricted Net Position	<u>8,822,721</u>	<u>13,730,892</u>
Total Unrestricted Net Position	41,223,410	47,619,542

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, 2014 and 2013:

	2014	2013
Redevelopment Assistance Capital Program Grant for Acquisition and Improvements at the Susquehanna Resource Management Complex	379,001	6,000,000
Grants from PA Department of Environmental Protection	517,841	168,207
Other	<u>7,555</u>	<u>82,555</u>
	904,397	6,250,762

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 16 - RETIREMENT PLANS (Continued)

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, 2014 and 2013, were \$636,712 and \$538,261, 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, 2014 and 2013, were \$356,289 and \$323,565, 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 \$530,446 and \$434,578 at December 31, 2014 and 2013, respectively, in other long-term liabilities for OPEB obligations.

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 per year in 2014 and 2013) 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:

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

	2014	2013	2012
Annual Required Contribution	202,214	198,453	222,704
Interest on Net OPEB Obligation	17,383	15,288	11,143
Adjustment to Annual Required Contribution	<u>(51,519)</u>	<u>(45,311)</u>	<u>(33,024)</u>
Annual OPEB Cost	168,078	168,430	200,823
Contributions Made	<u>72,210</u>	<u>116,060</u>	<u>74,081</u>
Increase in Net OPEB Obligation	95,868	52,370	126,742
Net OPEB Obligation - Beginning of Year	<u>434,578</u>	<u>382,208</u>	<u>255,466</u>
Net OPEB Obligation - End of Year	530,446	434,578	382,208

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2012, 2013, and 2014, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation - End of Year
12/31/2012	200,823	42%	382,208
12/31/2013	168,430	69%	434,578
12/31/2014	168,078	43%	530,446

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

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. Currently, the Authority is the only government entity who has elected to become a participant/member of the Government Self Insurance Fund. Contributions are placed into a trust and managed pursuant to a trustee agreement. The available self-insurance coverage was \$3,766,728 and \$3,787,466 at December 31, 2014 and 2013, 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, 2014, the Authority received reimbursement from the fund for various claims totaling \$85,162.

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, 2014, 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 the current or prior two 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, 2014 and 2013, 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 \$1,003,918 in the aggregate. At December 31, 2014, management is not aware of any additional assessments related to the health plan.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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.

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, 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Assignment and Assumption of City of Harrisburg Waste Disposal Agreement

In connection with the acquisition of the Susquehanna Resource Management Complex in 2013, 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 in 2013, 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.

Electric Plant Lease and Related Agreement

Commensurate with the acquisition of the Susquehanna Resource Management Complex in 2013, 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Electric Plant Lease and Related Agreement (Continued)

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, 2014 and 2013. At each reporting date, the liability recognized is based upon capacity utilized to-date at each site.

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, 2014, 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:

	2014	2013
Frey Farm Landfill		
Total Estimated Closure and Post-Closure Costs	18,364,136	17,355,541
Capacity Used at December 31	<u>75.5%</u>	<u>72.6%</u>
Closure and Post-Closure Costs Recognized	13,862,262	12,608,454
Closure and Post Closure Costs Paid To-Date	<u>7,145,448</u>	<u>7,145,448</u>
Net Liability	6,716,814	5,463,006
Closure and Post-Closure Costs Remaining to be Recognized	4,501,874	4,747,087
 Date that Capacity will be Reached	 2019	 2019

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)

	2014	2013
Susquehanna Resource Management Complex Ashfill **		
Total Estimated Closure and Post-Closure Costs	3,140,000	2,635,000
Capacity Used at December 31	<u>86.5%</u>	<u>86.5%</u>
Closure and Post-Closure Costs Recognized	3,140,000	2,635,000
Closure and Post Closure Costs Paid To-Date	<u>-0-</u>	<u>-0-</u>
Net Liability	3,140,000	2,635,000
Closure and Post-Closure Costs Remaining to be Recognized	-0-	-0-
 Date that Capacity will be Reached	 2018	 2018

** 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, 2014 and 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.

Estimated future post-closure costs of the Authority's closed site is as follows at December 31:

	2014	2013
Creswell Landfill		
Current Portion	128,000	124,000
Long-Term Portion	<u>683,000</u>	<u>746,000</u>
	811,000	870,000

The estimate of future costs is subject to change for inflation, deflation, changes in technology and federal, state, and local regulations.

The components of closure and post-closure care expense (income) in 2014 and 2013 are as follows:

	2014	2013
Closure and Post-Closure Care		
Frey Farm Landfill		
Capacity Used in Current Year	521,084	441,511
Change in Estimate	<u>732,724</u>	<u>124,084</u>
	1,253,808	565,595
Susquehanna Resource Management Complex Ashfill		
Change in Estimate	505,000	-0-
 Post-Closure Care		
Creswell Landfill		
Difference Between Actual and Estimated Costs - Current Year	10,170	(10,392)
Change in Estimate	<u>(59,000)</u>	<u>(79,000)</u>
	(48,830)	(89,392)

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Closure Collateral Funds and Other Commitments

In accordance with rules and regulations of the Pennsylvania Department of Environmental Protection, the Authority is required to provide Collateral Bonds pledged to the Department of Environmental Protection for estimated future closure and post-closure care costs of its landfills and sites. The Authority has satisfied this obligation through irrevocable standby letters of credit issued by a commercial bank to the Pennsylvania Department of Environmental Protection. The Authority has also issued a letter of credit to Raffles Insurance, Ltd. to guarantee payment of additional captive insurance premiums, and issues letters of credit related to improvement projects pursuant to local regulations. At December 31, 2014, the letters of credit issued totaled \$17,047,587 and are secured by deposits of \$17,899,967 (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, 2014
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
Other	<u>407,473</u>	<u>407,473</u>
	17,047,587	17,047,587

Other Contingencies

The Authority is an operating entity which, since its formation in December 1954, has provided solid waste landfill disposal services. The Authority's first landfill began operation on October 3, 1955. This landfill was located in Manheim Township, to the west of Lancaster City at property owned by the Lancaster Brick Company. In 1962, the Authority started landfilling at a site south of Lancaster City. This site is now a part of the Lancaster County Park. In 1964, the Authority acquired land at Creswell, Manor Township, and in 1968 began landfilling at the Creswell site. During 1989, the Authority began landfilling at the Frey Farm Landfill, which is adjacent to the Creswell landfill site. The Authority completed landfilling operations (a) at both the Lancaster Brick Company site and the Lancaster County Park site prior to 1970 and (b) at the Creswell site during 1989. The Lancaster Brick Company site, the Lancaster County Park site, and the Creswell site, along with 61 other sites in the County and 2,117 other sites within the Commonwealth of Pennsylvania, have been included on the Comprehensive Environmental Response, Compensation and Liability Information System ("CERCLIS"). CERCLIS is a list of sites identified by or referred to the United States Environmental Protection Agency as being worthy of investigation. The Authority cannot predict whether, and to what extent, it may have any liabilities or responsibilities with respect to any of these sites.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Permits and Approvals

In connection with the Authority's obtaining, in June 1986, zoning approval to use as a landfill the property which is currently known as the Authority's Frey Farm Landfill, the Manor Township Zoning Hearing Board included in its decision provisions which provided that the Authority "its successors and assigns shall not (a) expand the Creswell landfill beyond the tract known as the Frey Dairy Farm, (b) construct or operate any other refuse disposal facility within Manor Township, (c) cause any leachate collection or treatment facility to be constructed on any other site within Manor Township, or (d) construct and/or operate (within Manor Township) any facility for the incineration of refuse." The meaning and effect of the Zoning Hearing Board's decision have been clarified by the Agreement with Manor Township and the Consent Order. However, the Authority believes that the June 1986 decision by the Manor Township Zoning Hearing Board, the Agreement and the Consent Order may constitute governmental action which is subject to change in the future. Therefore, there is no assurance that the zoning and governmental approvals which will be in effect in the future will permit the use of the properties for the Authority's purposes or that the Authority will be able to satisfy whatever governmental and other conditions might be applicable to the Authority's use of the properties for the Authority's purposes.

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 \$34,656 and \$31,651 to the Bainbridge Fire Company pursuant to this commitment during the years ended December 31, 2014 and 2013, respectively.

The Authority had a binding commitment to provide funding to the Susquehanna Heritage Corporation during the years 2010 through 2014, which was extended until 2019 during the current year. 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 \$77,549 and \$57,304 to the Susquehanna Heritage Corporation during the years ended December 31, 2014 and 2013, respectively.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Litigation (Continued)

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, 2014, the Authority purchased \$24,189 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
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	84,894	1,949,234
2020 - 2024	494,727	1,816,579 - 1,258,681
2025 - 2029	611,822	1,112,110 - 495,692
2030 - 2031	263,464	333,746 - 168,538
	1,676,802	

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

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

Open Construction Contract Commitments

At December 31, 2014, the Authority has open construction contract commitments totaling \$4,433,433 for various projects at Authority facilities.

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, 2014 and 2013:

	2014		2013	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer A	8,377,816	671,957	6,621,059	1,051,448
Customer B	n/a	n/a	4,910,845	426,345
Customer C	7,464,033	613,848	n/a	n/a

n/a: not a major customer in 2014 or in 2013

Energy revenues include transactions with a major customer as follows for the years ended December 31, 2014 and 2013:

	2014		2013	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer D	11,999,352	2,064,845	12,121,072	1,859,205
Customer E	6,107,620	393,041	n/a	n/a

n/a: not a major customer in 2013

NOTE 21 - RELATED PARTY TRANSACTIONS

The Authority leases a residential property in East Hempfield Township to its Chief Executive Officer for \$24,000, pursuant to a lease executed in May 2014. The initial term of the lease is from November 1, 2014 until five years following the termination of employment of the executive with the Authority. Yearly rental under the lease is \$24,000. Rental revenue recognized by the Authority in 2014 was \$3,692.

The Authority's chief executive officer is a board member of Susquehanna Heritage Corporation (SHC). As discussed in Note 19, the Authority has a binding commitment to provide funding to SHC during the years 2010 through 2014, and extended until 2019 during the current year. The Authority provided \$77,549 and \$57,304 to the Susquehanna Heritage Corporation during the years ended December 31, 2014 and 2013, respectively.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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, 2014 and 2013, and our report thereon dated March 4, 2015 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, 2012, 2011, and 2010. In our reports dated February 23, 2013, February 28, 2012 and March 7, 2011, 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 45 and the concise statements for publication on page 46 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of these basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 45 and 46 is fairly stated, in all material respects, in relation to the basic financial statements from which they have been derived.

March 4, 2015
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, 2014, 2013, 2012, 2011, and 2010

	2014	2013	2012	2011	2010
OPERATING REVENUES					
Tipping Fees	\$ 57,350,288	\$ 36,528,464	\$ 36,739,546	\$ 37,913,369	\$ 37,466,392
Energy	18,706,329	12,366,845	12,721,735	12,394,865	11,394,917
Transportation and Other	<u>4,362,067</u>	<u>3,312,889</u>	<u>3,460,722</u>	<u>3,430,220</u>	<u>3,083,160</u>
Total Operating Revenues	80,418,684	52,208,198	52,922,003	53,738,454	51,944,469
OPERATING EXPENSES					
Waste-to-Energy Facility	22,476,602	21,586,995	22,066,779	21,595,882	20,279,451
Susq. Resource Mgmt. Complex	21,426,485	439,348	-0-	-0-	-0-
Depreciation and Amortization	12,187,390	7,667,655	7,633,557	7,944,542	7,523,662
Landfills	4,016,806	3,522,988	3,548,224	3,638,856	3,619,938
Transfer Station Complex	3,141,323	3,132,300	3,218,345	3,101,884	2,922,085
Closure and Post-Closure Care	1,709,978	476,203	2,530	356,505	1,805,335
Household Hazardous Waste	<u>386,158</u>	<u>341,862</u>	<u>290,841</u>	<u>280,577</u>	<u>321,515</u>
Total Operating Expenses	65,344,742	37,167,351	36,760,276	36,918,246	36,471,986
SUPPORT EXPENSES	<u>8,346,779</u>	<u>14,009,625</u>	<u>9,631,403</u>	<u>8,991,945</u>	<u>9,998,733</u>
Total Operating and Support Expenses	<u>73,691,521</u>	<u>51,176,976</u>	<u>46,391,679</u>	<u>45,910,191</u>	<u>46,470,719</u>
OPERATING INCOME	6,727,163	1,031,222	6,530,324	7,828,263	5,473,750
INTEREST and INVESTMENT EARNINGS					
INTEREST EXPENSE	(5,591,063)	(1,538,259)	(1,746,862)	(1,959,294)	(2,193,414)
NET OTHER NON-OPERATING REVENUES					
CHANGES in NET POSITION	<u>\$ 301,806</u>	<u>\$ 6,584,316</u>	<u>\$ 6,565,876</u>	<u>\$ 8,233,539</u>	<u>\$ 6,929,951</u>

See independent auditors' report on supplementary information.

Lancaster County Solid Waste Management Authority

Concise Statements for Publication

STATEMENTS of NET POSITION December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets	\$ 48,698,163	\$ 50,045,130
Restricted Assets	31,424,509	31,243,310
Other Assets	2,568,367	6,881,164
Real Estate, Facilities, and Equipment	<u>238,046,586</u>	<u>242,493,602</u>
TOTAL ASSETS	320,737,625	330,663,206
LIABILITIES and NET ASSETS		
Current Liabilities	19,215,874	20,663,697
Long-Term Liabilities	<u>149,334,646</u>	<u>158,114,210</u>
TOTAL LIABILITIES	<u>168,550,520</u>	<u>178,777,907</u>
NET POSITION	<u>\$ 152,187,105</u>	<u>\$ 151,885,299</u>

STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET POSITION Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES	\$ 80,418,684	\$ 52,208,198
OPERATING and SUPPORT EXPENSES	<u>73,691,521</u>	<u>51,176,976</u>
OPERATING INCOME	6,727,163	1,031,222
NET NON-OPERATING REVENUES (EXPENSES)	<u>(6,425,357)</u>	<u>5,553,094</u>
CHANGES in NET POSITION	<u>\$ 301,806</u>	<u>\$ 6,584,316</u>

See independent auditors' report on supplementary information.