

# Lancaster County Solid Waste Management Authority

Years Ended December 31, 2019 and 2018

# **Lancaster County Solid Waste Management Authority**

Lancaster, Pennsylvania

Years Ended December 31, 2019 and 2018

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# Lancaster County Solid Waste Management Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2019 and 2018

## TABLE of CONTENTS

	Page
<b>Independent Auditors' Report</b>	1 & 2
<b>Management's Discussion and Analysis</b>	3 - 9
<b>Financial Statements</b>	
Statements of Net Position	10 & 11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13 & 14
Notes to Financial Statements	15 - 45
<b>Required Supplementary Information</b>	
Schedule of Changes in Total OPEB Liability and Related Ratios - Single-Employer Defined Benefit OPEB Plan - Unaudited	46
Notes to Required Supplementary Information - Single-Employer Defined Benefit OPEB Plan	47
<b>Supplementary Information</b>	
Independent Auditors' Report on Supplementary Information	48
Schedules of Condensed Revenues, Expenses, and Changes in Net Position	49
Concise Statements for Publication	50



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of **Lancaster County Solid Waste Management Authority**, which comprise the statements of net position as of December 31, 2019 and 2018, 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.

**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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Change in Accounting Principle**

As described in Note 1 to the financial statements, **Lancaster County Solid Waste Management Authority** adopted new accounting guidance, GASB Statement No. 83, *Certain Asset Retirement Obligations*, and No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to these matters.

**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 9 and 46 and 47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Trout CPA*

March 19, 2020

Lancaster, Pennsylvania

# **Lancaster County Solid Waste Management Authority**

## **MANAGEMENT'S DISCUSSION and ANALYSIS**

The Management of the **Lancaster County Solid Waste Management Authority** (the Authority) presents the following narrative and analysis to assist the reader of the financial statements in understanding the financial activities for the fiscal year ended December 31, 2019.

### **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 Management's Discussion and Analysis 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 using accrual basis for accounting which is the same measurement focus and basis of accounting employed by private-sector business enterprises. The enterprise fund financial statements can be found on pages 10 through 14 of the attached audited financial statements.

The statements of net position present 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 Statements of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. These statements provide the reader information on the Authority's operating revenues and expenses, non-operating revenues and expenses, and whether the Authority's financial position has improved or deteriorated as a result of each year's operations.

The statements of cash flows present the Authority's change in cash and cash equivalents during the year. This information is useful in determining the Authority's ability to generate cash sufficient to cover operating and debt obligations.

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 15 through 45 of the attached audited financial statements.

### **SUMMARY**

The Authority experienced a reduced volume of waste in 2019 receiving 979,353 tons, a decrease of 4.7% as compared to prior year. Strategic diversification of revenue sources provides fiscal strength in weathering market fluctuations as realized in 2019 waste volumes. The public-private arrangement with Inashco North America Lancaster, LLC. (Inashco) commenced operations June 1, 2019, providing a new revenue source through the process of extracting small particulate ferrous and non-ferrous from ash residue. The Authority provided a ten-year note bearing 5% interest to Inashco for the majority portion of construction cost.

**Lancaster County Solid Waste Management Authority**  
MANAGEMENT'S DISCUSSION and ANALYSIS

**SUMMARY (Continued)**

Capital expenditures (CAPEX) were of lesser magnitude as compared to prior year. Net CAPEX investment of \$12,497,475 was incurred to support the infrastructure and equipment necessary to process the significant waste volumes. CAPEX investment included the completion of the first phase of the Frey Farm Landfill vertical expansion, functional upgrades, necessary site maintenance and equipment replacement.

**FINANCIAL REVIEW**

The Authority strengthened its balance sheet position by increasing its net position by 1.4% from 2018 to \$176,410,936. Current assets of \$39,957,753 improved through heightened collection efforts of trade receivables. Total assets and deferred outflows of resources of \$323,278,195 declined by \$2,659,826 from 2018. Capital assets of \$240,448,444 are net of accumulated depreciation. Positive operating surpluses provided sufficient cash flow to fully fund capital investments and service debt obligations. Total principal debt outstanding (current and long-term) was reduced by \$4,330,000 to a principal balance of \$112,985,000 at December 31, 2019.

	<b>Net Position</b>	
	<b>2019</b>	<b>2018</b>
Current and Other Assets	81,234,937	80,577,246
Capital Assets	<u>240,448,444</u>	<u>243,233,961</u>
<b>Total Assets</b>	<b>321,683,381</b>	<b>323,811,207</b>
 <b>TOTAL DEFERRED OUTFLOWS of RESOURCES</b>	 <b>1,594,364</b>	 <b>2,126,814</b>
Long-Term Liabilities Outstanding	118,208,960	124,240,596
Landfill Closure and Post-Closure Costs (Current and Long-Term)	13,581,296	10,916,146
Other Liabilities	<u>15,050,647</u>	<u>16,767,471</u>
<b>Total Liabilities</b>	<b>146,840,903</b>	<b>151,924,213</b>
 <b>TOTAL DEFERRED INFLOWS of RESOURCES</b>	 <b>26,356</b>	 <b>32,880</b>
Net Investment in Capital Assets	132,250,019	130,164,500
Restricted	6,971,340	8,654,814
Unrestricted	<u>37,189,577</u>	<u>35,161,614</u>
<b>TOTAL NET POSITION</b>	<b>176,410,936</b>	<b>173,980,928</b>

Standard & Poor's upgraded the Authority's credit rating two notches from 'AA-' to 'AA+'. The upgrade reflects the Authority's continued efforts to diversify its revenue sources and continued improvement in debt service coverage.

The Authority had a net debt service obligation of \$9,245,173 (principal and interest) for 2019. The debt service coverage ratio remained strong at 2.4 times the annual debt service obligation.

**Lancaster County Solid Waste Management Authority**  
MANAGEMENT'S DISCUSSION and ANALYSIS

**FINANCIAL REVIEW (Continued)**

The majority of the Authority's net position is comprised of two components: 1) investment in capital assets (net of associated debt) and 2) investments in board designated (investment reserve funds) and undesignated asset of \$37,189,577. These investment reserves consist of funds set aside for future capital construction project funding along with business interruptions and strategic opportunities.

The Authority's net position increased by \$2,430,008 during the year. Over the past five (5) years, the Authority strengthened its net position by 12% from \$157,333,692 to \$176,410,936.

Operating revenues of \$87,037,837 decreased by \$1,398,025 (1.6%) from 2018. Tipping fee revenue, net of hauler rebates was \$66,782,072, a nominal decrease from 2018. The Authority's system average rate per ton improved to \$74.36 (+6.8%) which provided relief against a reduction of inbound volumes as compared to a record year in 2018. Energy revenue decreased \$1,660,349 (-9.4%) from 2018 due to near-record low electric market pricing. Both waste-to-energy facilities experienced strong MWh generation and operated with exceptional boiler availability.

Operating and support expenses, excluding depreciation, were \$57,138,188 and \$10,449,766 respectively, a cumulative increase of 5.4% from 2018 due to necessary staffing fulfillment and general increases in the costs associated with operating the facilities. Depreciation expense of \$14,951,137 increased 2.6% from 2018 reflecting additional assets capitalized and placed in service. Included in operating expenses are provisions for landfill related closure and post-closure care costs as well as asset retirement obligations as recognized under GASB accounting guidelines. The total costs recognized under these guidelines was \$2,923,344, which resulted from revised closure cost estimates being offset by an increase in the actual percentage of area filled at the Frey Farm Landfill (FFLF) during the year.

Net nonoperating expenses were \$2,068,738, reduced by 22.2% from 2018. Net nonoperating expenses include interest expense on debt, investment earnings, net gain or loss on asset sales, and other non-operating revenue sources. Investment earnings were \$2,475,836 as compared to 2018 earnings of \$1,086,299. This increase includes interest earnings on the \$11,000,000 loan provided to Inashco and market value gains on investment assets.

The Authority had a matter being arbitrated with Perdue which reached settlement on February 21, 2020. As a result, the outstanding invoices of \$515,051 with Perdue were discharged and an additional net amount of \$42,965 was owed to Perdue. These adjustments have been reflected in the accompanying 2019 audited financial statements.



**Lancaster County Solid Waste Management Authority**  
MANAGEMENT'S DISCUSSION and ANALYSIS

**FINANCIAL REVIEW (Continued)**

	<b>Change in Net Position</b>	
	<b>2019</b>	<b>2018</b>
Revenues:		
Tipping, net	66,782,072	67,281,064
Energy	16,036,271	17,696,620
Transportation	1,562,956	1,627,387
Other Revenues	<u>2,656,538</u>	<u>1,830,791</u>
<b>TOTAL OPERATING REVENUE</b>	<b>87,037,837</b>	<b>88,435,862</b>
Expenses:		
Operating Expenses	57,138,188	53,986,825
Support Expenses	10,449,766	10,111,609
Depreciation	<u>14,951,137</u>	<u>14,579,093</u>
<b>TOTAL OPERATING and SUPPORT EXPENSES</b>	<b>82,539,091</b>	<b>78,677,527</b>
Interest Expense	(4,401,154)	(4,586,685)
Investment Earnings	2,475,836	1,086,299
Gain (Loss) on Assets	(331,010)	70,546
Other Nonoperating Revenue	<u>187,590</u>	<u>770,511</u>
<b>NET NONOPERATING REVENUE (EXPENSE)</b>	<b><u>(2,068,738)</u></b>	<b><u>(2,659,329)</u></b>
<b>INCREASE in Net Position</b>	<b>2,430,008</b>	<b>7,099,006</b>
Net Position - January 1	<u>173,980,928</u>	<u>166,881,922</u>
<b>NET POSITION - DECEMBER 31</b>	<b>176,410,936</b>	<b>173,980,928</b>

**Capital Assets**

During fiscal year 2019, the Authority invested \$13,034,198 in capital assets through a combination of projects, improvements and equipment purchases at each site. Proceeds from property and equipment sales were \$536,723.

Planned upgrades and improvements at the Lancaster Waste-To-Energy and the Susquehanna Resource Management Complex (SRMC) facilities accounted for 6.3% and 13.0% respectively of total CAPEX. Landfill improvements inclusive of construction costs related to the completion of the metals recovery facility (Inashco) accounted for 8.8% of total CAPEX. Equipment purchases of replacement truck tractors, transfer trailers and heavy iron site-equipment accounted for 39.5% of total CAPEX. Construction in progress and land/land improvements accounted for 9.4% and 9.2% respectively of total CAPEX. The balance of capital expenditure for 2019, inclusive of transfer station, other real estate, administrative building and equipment and support facilities accounted for 13.8% of total CAPEX.

Total depreciation expense was \$14,951,137. A comparison of capital assets, net of depreciation, as of December 31, 2019 and December 31, 2018 is shown below.

**Lancaster County Solid Waste Management Authority**  
MANAGEMENT'S DISCUSSION and ANALYSIS

**FINANCIAL REVIEW (Continued)**

	<b>Capital Assets</b>	
	<b>2019</b>	<b>2018</b>
Susquehanna Resource Management Complex (SRMC)	109,136,385	113,455,386
Lancaster Waste-to-Energy Facility	32,103,735	35,747,734
Frey Farm Landfill Facility	7,457,066	6,872,282
Transfer Station Complex	17,641,573	17,962,777
Support Facilities	8,899,626	6,651,459
Other Real Estate and Satellite Transfer Station	4,937,593	5,951,530
Equipment	10,778,611	9,453,120
Administrative Building and Equipment	1,078,222	1,161,344
Construction in Progress	23,099,981	21,870,288
Land and Improvements	<u>25,315,652</u>	<u>24,108,041</u>
	<b>240,448,444</b>	<b>243,233,961</b>

Additional information on the Authority's capital assets can be found in Notes 5 and 6 of the financial statements.

**Debt Administration and Long-Term Obligations**

At December 31, 2019, the Authority had \$112,985,000 of outstanding bond principal liability associated with the acquisition of the SRMC assets on December 23, 2013. Principal payments of \$4,330,000 were made in 2019 (see Note 9). The Authority has obligations to close the Frey Farm Landfill at permit expiration 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 total related long-term liabilities in the amount of \$13,377,296 for these activities. Additionally, the Authority is required per GASB standards to record a liability for other asset retirement obligations inclusive of facility decontamination and non-landfill facility water monitoring. The Authority has recorded a total asset retirement obligation liability in the amount of \$822,749.

**REVIEW OF BUSINESS**

**Facilities and Operations**

The Authority owns and operates four (4) primary facilities; the Susquehanna Resource Management Complex (SRMC) in Harrisburg, PA; the Transfer Station Complex (TSC) in Lancaster, PA; the Frey Farm Landfill (FFLF) in Conestoga, PA; and the Waste-to-Energy (WTE) facility in Bainbridge, PA. The integrated operation of these facilities constitutes the entire solid waste processing and disposal system (the System).

In 2019, the System received 979,353 tons of waste which includes refuse, construction and demolition (C/D), residual and recyclable material. This represented a 4.7% decrease from 2018. The TSC received 384,616 tons of waste which was then transferred to the WTE facility, FFLF, SRMC or several privately owned and operated recycling facilities. WTE received 396,790 tons of waste either delivered directly to the facility or transferred in from the TSC or SRMC, while the FFLF received 279,092 tons of waste either delivered directly to the FFLF or transferred in from the TSC, WTE or SRMC. There were 300,278 tons of waste directly received at SRMC.

**Lancaster County Solid Waste Management Authority**  
MANAGEMENT'S DISCUSSION and ANALYSIS

**REVIEW OF BUSINESS (Continued)**

**Facilities and Operations (Continued)**

The WTE facility processed 396,225 tons of waste to generate 196.4 M kWh of electricity and 41.2 M kWh equivalent of steam for Perdue's soybean processing facility. Total electric revenue generated at the WTE was \$4,178,633. The WTE facility had direct steam deliveries to Perdue that realized revenues of \$3,293,054. In exchange for an obligation to provide electricity to the PJM grid during periods of need, LCSWMA's WTE facility recognized \$824,351 in capacity commitment revenue. WTE's renewable energy credits (RECs) totaled \$826,983.

The SRMC facility processed 282,553 tons of waste generating 110.9 M kWh of electricity, 89% of which was sold under a 20-year contract to the Commonwealth of Pennsylvania's Department of General Services (DGS). Total electric revenue generated at the SRMC was \$5,025,079. In addition to the direct sale of electric, the SRMC facility also contracted to provide capacity to PJM generating \$330,929 of revenue, and RECs generating another \$462,054.

The Authority was awarded a reactive power settlement through the Federal Energy Regulatory Commission (FERC) which grants the Authority annual revenues of \$238,000 from Lancaster WTE and \$102,000 from SRMC, collectively \$340,000. The annual reactive power revenues will endure indefinitely so long as the waste-to-energy facilities are operating.

Transportation revenues of \$1,562,956 reflects fees charged to haulers for waste that is delivered to the Authority's Transfer Station (which is then transferred to the FFLF, WTE or SRMC sites). Other revenue primarily consists of the sale of metal recovered from ash at the two waste-to-energy facilities. Metals prices, which fluctuate based on market variables, deteriorated in 2019 resulting in metal recovery revenues of \$737,292, a 49.2% decrease from 2018.

Operations of the Inashco metals recovery facility commenced June 1, 2019, providing a new revenue source from the sale of recovered metal along with interest income from the Inashco loan. The Authority recognized \$303,333 of metal sales revenue and \$519,239 of interest (includes interest capitalized into the loan and interest earned from loan repayment) in 2019.

**Business Outlook**

The Authority's waste market has maintained a strong diverse economy boosting waste volumes by 3.4% over the past five years. The Authority anticipates a stable volume trend, in comparison to the rapid growth in prior years, across all waste types in 2020 as suggested by economic, market, and regional demographic data. Despite recent declining waste growth, the Authority will continue operating at high tonnage volumes allowing the absorption of fixed costs and maximizing production efficiencies.

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

### **Business Outlook (Continued)**

Electric generation is expected to remain at recent output levels as operations and preventive maintenance programs focus on maintaining high levels of reliability. Electric market rates are expected to remain at near-record lows due to the availability of low-cost natural gas for fueling power generation facilities and regional climate trends. Demand for thermal energy (steam) to Perdue is expected to remain strong and the Authority will continue to look at additional opportunities for its WTE facility to further reduce its exposure to volatility associated with open market electricity sales.

Business fundamentals within the Authority remain solid. The Authority continues to invest in infrastructure, equipment and technologies to increase operational consistency and reduce operating costs. Additionally, long-term capacity planning and fiscal strategy will be continued focal points as the management team identifies future objectives necessary to ensure model sustainability. Opportunities associated with energy products, material recoveries and resource development are continuously evaluated internally and jointly with the Authority's extended industry and community partner network.

The Authority will begin filling the first phase of the Frey Farm Landfill Vertical Expansion in 2020. The total Frey Farm Landfill Vertical Expansion is estimated to add approximately 6.4 million cubic yards, equivalent to 18 years of disposal capacity; integral to the Authority's sustainable waste management plan.

Property insurance capacity, specifically for the power generation class of business, placed through traditional carrier options is diminishing. Despite the Authority's outstanding safety and claims record, traditional carrier capacity will be a challenge to circumvent in preparation for the termination of the current property policy on December 31, 2020. Early discovery is being conducted on various options for property coverage including captive programs to ensure a viable option is established for long-term coverage.

The Authority was able to cover the 2019 CAPEX investment of \$12,497,475, net of proceeds, through free cash flows from operations. The next two fiscal years will place a higher demand on CAPEX investment to address landfill cell capping, necessary equipment replacements, and the construction of a new landfill administrative and maintenance building. The Authority is planning for CAPEX investment of \$22.7M and \$17.5M in 2020 and 2021 respectively. The majority of the 2020 and 2021 CAPEX funding requirements will be satisfied through free cash flow from operations with any additional funding requirement drawn from planned construction reserves.

### **Requests for Information**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Commercial Officer, Lancaster County Solid Waste Management Authority, P.O. Box 4425, Lancaster, PA 17604, or e-mail to [info@lcswma.org](mailto:info@lcswma.org).

# Lancaster County Solid Waste Management Authority

## STATEMENTS of NET POSITION

December 31, 2019 and 2018

	2019	Restated 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 14,167,178	\$ 8,511,612
Investments	13,343,520	18,068,589
Accounts Receivable, net of Provision for Bad Debts of \$10,000 at 2019 and 2018	9,852,540	11,627,296
Grants Receivable, Current Portion	410,291	109,428
Notes Receivable, Current Portion	895,508	785,565
Interest Receivable	134,082	150,473
Inventory	19,815	19,815
Prepaid Assets	1,134,819	285,961
<b>Total Current Assets</b>	<b>39,957,753</b>	<b>39,558,739</b>
<b>RESTRICTED ASSETS</b>		
Investments with Trustee (Note 3)	9,071,469	9,044,524
Interest Receivable	2,351	2,279
Total Restricted Assets with Trustee	9,073,820	9,046,803
Escrow Deposits	1,411,854	1,607,962
Closure and Post-Closure Care Funds	19,640,782	19,312,998
<b>Total Restricted Assets</b>	<b>30,126,456</b>	<b>29,967,763</b>
<b>OTHER ASSETS</b>		
Notes Receivable, net of Current Portion (Note 4)	9,602,379	8,166,560
Other Real Estate	1,517,799	2,853,184
Other - Raffles Insurance, Ltd.	31,000	31,000
<b>Total Other Assets</b>	<b>11,151,178</b>	<b>11,050,744</b>
<b>REAL ESTATE, FACILITIES, and EQUIPMENT (Note 5)</b>		
Lancaster Waste-to-Energy Facility	149,039,319	148,282,720
Susquehanna Resource Management Complex	136,737,946	136,103,601
Landfill Facility	91,106,342	87,791,203
Transfer Station Complex	26,977,034	26,383,433
Equipment	26,023,844	22,920,677
Support Facilities	10,077,671	9,954,021
Other Real Estate	8,942,272	8,659,216
Administrative Building and Equipment	4,505,717	4,402,867
Muddy Creek Property	1,172,780	1,068,386
	454,582,925	445,566,124
Accumulated Depreciation	(237,234,462)	(224,202,451)
Net Depreciable Assets	217,348,463	221,363,673
Construction in Progress (Note 6)	23,099,981	21,870,288
<b>Net Real Estate, Facilities, and Equipment</b>	<b>240,448,444</b>	<b>243,233,961</b>
<b>TOTAL ASSETS</b>	<b>321,683,831</b>	<b>323,811,207</b>
<b>DEFERRED OUTFLOWS of RESOURCES</b>		
Other Postemployment Benefits	826,247	1,320,197
Asset Retirement Obligations	768,117	806,617
<b>TOTAL DEFERRED OUTFLOWS of RESOURCES</b>	<b>1,594,364</b>	<b>2,126,814</b>
<b>TOTAL ASSETS and DEFERRED OUTFLOWS of RESOURCES</b>	<b>\$ 323,278,195</b>	<b>\$ 325,938,021</b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## STATEMENTS of NET POSITION

(Continued)

December 31, 2019 and 2018

	2019	Restated 2018
<b>LIABILITIES and NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt (Note 9)	\$ 4,550,000	\$ 4,330,000
Current Portion of Estimated Post-Closure Care Costs	204,000	150,000
Accounts Payable - Trade	5,840,050	6,936,119
Prepaid Disposal Fees	1,041,886	1,070,783
Accrued Expenses (Note 8)	<u>3,618,711</u>	<u>4,430,569</u>
<b>Total Current Liabilities</b>	<b>15,254,647</b>	<b>16,917,471</b>
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt, net of Current Portion (Note 9)	112,722,245	117,786,264
Estimated Closure and Post-Closure Care Liability, net of Current Portion	13,377,296	10,766,146
Other Long-Term Liabilities (Note 10)	1,157,970	2,080,943
Net Other Postemployment Benefits (OPEB) Obligation	3,505,996	3,566,772
Asset Retirement Obligations	<u>822,749</u>	<u>806,617</u>
<b>Total Long-Term Liabilities</b>	<b>131,586,256</b>	<b>135,006,742</b>
<b>TOTAL LIABILITIES</b>	<b>146,840,903</b>	<b>151,924,213</b>
<b>DEFERRED INFLOWS of RESOURCES</b>		
Other Postemployment Benefits	<u>26,356</u>	<u>32,880</u>
<b>TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES</b>	<b>146,867,259</b>	<b>151,957,093</b>
<b>NET POSITION (Note 11)</b>		
Net Investment in Capital Assets	132,250,019	130,164,500
Restricted	6,971,340	8,654,814
Unrestricted	<u>37,189,577</u>	<u>35,161,614</u>
<b>TOTAL NET POSITION</b>	<b>\$ 176,410,936</b>	<b>\$ 173,980,928</b>

See notes to financial statements.

**Lancaster County Solid Waste Management Authority**  
 STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET POSITION  
 Years Ended December 31, 2019 and 2018

	<b>2019</b>	<b>Restated 2018</b>
<b>OPERATING REVENUES</b>		
Tipping Fees, Gross	\$ 71,027,981	\$ 71,592,940
Less Hauler Rebates	<u>(4,245,909)</u>	<u>(4,311,876)</u>
Tipping Fees, net of Hauler Rebates	66,782,072	67,281,064
Energy	16,036,271	17,696,620
Transportation	1,562,956	1,627,387
Other	<u>2,656,538</u>	<u>1,830,791</u>
<b>Total Operating Revenues</b>	<b>87,037,837</b>	<b>88,435,862</b>
<b>OPERATING EXPENSES</b>		
Lancaster Waste-to-Energy Facility	22,085,891	22,112,494
Susquehanna Resource Management Complex	18,754,992	18,824,726
Depreciation	14,800,618	14,492,523
Landfills	5,169,371	5,213,251
Transfer Station Complex	7,687,925	5,360,165
Closure and Post-Closure Care	2,923,344	1,987,153
Household Hazardous Waste	<u>516,665</u>	<u>489,036</u>
<b>Total Operating Expenses</b>	<b>71,938,806</b>	<b>68,479,348</b>
<b>SUPPORT EXPENSES</b>		
General and Administrative	10,449,766	10,111,609
Depreciation	<u>150,519</u>	<u>86,570</u>
<b>Total Support Expenses</b>	<b>10,600,285</b>	<b>10,198,179</b>
<b>Total Operating and Support Expenses</b>	<b>82,539,091</b>	<b>78,677,527</b>
<b>OPERATING INCOME</b>	<b>4,498,746</b>	<b>9,758,335</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Grant Revenues	553,115	300,071
Gain (Loss) on Disposal of Assets	(331,010)	70,546
Miscellaneous	294,965	470,440
Bad Debt Expense/Defaulted Note Receivable	(660,490)	-0-
Interest and Investment Earnings	2,475,836	1,086,299
Interest Expense	<u>(4,401,154)</u>	<u>(4,586,685)</u>
<b>Net Nonoperating Expenses</b>	<b>(2,068,738)</b>	<b>(2,659,329)</b>
<b>CHANGES in NET POSITION</b>	<b>2,430,008</b>	<b>7,099,006</b>
<b>NET POSITION</b>		
Beginning of Year	<u>173,980,928</u>	<u>166,881,922</u>
<b>End of Year</b>	<b><u>\$ 176,410,936</u></b>	<b><u>\$ 173,980,928</u></b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## STATEMENTS of CASH FLOWS

Years Ended December 31, 2019 and 2018

	<b>2019</b>	<b>Restated 2018</b>
<b>CASH FLOWS from OPERATING ACTIVITIES</b>		
Receipts from Customers and Users	\$ 88,563,610	\$ 92,289,160
Payments to Suppliers	(56,995,001)	(56,752,799)
Payments to Employees	<u>(9,085,488)</u>	<u>(8,253,072)</u>
<b>Net Cash Provided by Operating Activities</b>	<b>22,483,121</b>	<b>27,283,289</b>
<b>CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES</b>		
State and Local Grant Income	<b>252,252</b>	<b>390,643</b>
<b>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</b>		
Interest Paid	(4,915,173)	(5,121,871)
Principal Payments	(4,330,000)	(4,125,000)
Payments for Capital Acquisitions	(13,034,198)	(21,571,282)
Proceeds from Sale of Capital Assets	<u>536,723</u>	<u>423,269</u>
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(21,742,648)</b>	<b>(30,394,884)</b>
<b>CASH FLOWS from INVESTING ACTIVITIES</b>		
Release of (Deposits Made) for Escrow Funds	196,108	75,450
Refund Escrow Funds	(850,000)	-0-
Performance Deposit Received	-0-	100,000
Advances on Note Receivable	(1,724,529)	(8,385,122)
Principal Payments Received on Notes Receivable	178,767	6,667
Sales of Restricted Investments	43,778,651	38,167,048
Purchases of Restricted Investments	(43,515,559)	(38,298,707)
Receipts of Interest	1,660,386	1,092,791
Sales of Unrestricted Investments	13,266,063	14,149,755
Purchases of Unrestricted Investments	<u>(8,327,046)</u>	<u>(2,069,900)</u>
<b>Net Cash Provided by Investing Activities</b>	<b>4,662,841</b>	<b>4,837,982</b>
<b>INCREASE in CASH and CASH EQUIVALENTS</b>	<b>5,655,566</b>	<b>2,117,030</b>
<b>CASH and CASH EQUIVALENTS</b>		
Beginning	<u>8,511,612</u>	<u>6,394,582</u>
<b>Ending</b>	<b><u>\$ 14,167,178</u></b>	<b><u>\$ 8,511,612</u></b>

See notes to financial statements.



# Lancaster County Solid Waste Management Authority

## STATEMENTS of CASH FLOWS

(Continued)

Years Ended December 31, 2019 and 2018

	2019	2018
<b>RECONCILIATION of OPERATING INCOME</b>		
<b>to NET CASH PROVIDED by OPERATING ACTIVITIES</b>		
Operating Income	\$ 4,498,746	\$ 9,758,335
<b>ADJUSTMENTS to RECONCILE OPERATING INCOME</b>		
<b>to NET CASH PROVIDED by OPERATING ACTIVITIES</b>		
Depreciation	14,951,137	14,579,093
Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Position Included for Cash Flow	294,965	470,440
(Increase) Decrease in:		
Accounts Receivable	1,259,705	(584,343)
Inventory and Other Current Assets	(848,858)	(46,662)
Increase (Decrease) in:		
Current Liabilities	(819,002)	1,245,138
Estimated Closure and Post-Closure Care Costs	2,665,150	1,709,590
Change in Asset Retirement Obligations	38,500	-0-
Other Postemployment Benefits - Related Changes Other than Periodic OPEB Costs	442,778	151,698
<b>Total Adjustments</b>	<b><u>17,984,375</u></b>	<b><u>17,524,954</u></b>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 22,483,121</u></b>	<b><u>\$ 27,283,289</u></b>
<b>SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION</b>		
Seizure of Collateral on Defaulted Note Receivable	102,474	-0-
Change in Market Value of Investments - Restricted	617,821	(169,086)
Change in Market Value of Investments - Unrestricted	213,948	(49,694)
Change in Accounts Payable Related to Capital Projects	(1,233,756)	275,838
Interest Accrued on Note Receivable	-0-	(231,908)

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 combustion of municipal waste and generation of energy, (b) landfill facilities for the disposal of municipal solid waste and ash, (c) a transfer facility, (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) 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; and (c) various other buildings and equipment.

In conjunction with this acquisition of the Susquehanna Resource Management 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 County 1991 Plan was amended by the Dauphin County 1994, 1995, 1999, and 2003 Non-substantial Plan Revisions (collectively the Dauphin County Plan). In 2004, the Dauphin County 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. MSW generated in Swatara Township and Highspire Borough was included on and after May 2016. 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 Non-substantial 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 Non-substantial Plan Revision and the Delegation Agreement.

Unlike the Lancaster Plan, the Dauphin County 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 Management 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first for restricted purposes, then unrestricted resources as they are needed.

#### Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits, certificates of deposit, as well as unrestricted investments with original maturities of three months or less.

# 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 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 15, and as a condition of participation in a captive insurance program.

##### Closure and Post-Closure Care 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.

#### 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 \$2,500 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 acquisition 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, 2019 and 2018, was \$14,951,137 and \$14,579,093, respectively.

The Authority is holding other real estate totaling \$1,517,799 and \$2,853,184 at December 31, 2019 and 2018, respectively which is not used in operations (Note 7).

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites.

#### Other Postemployment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting 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.

The Authority sponsors a single-employer defined benefit OPEB plan. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. The single-employer OPEB plan is unfunded.

#### 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, asset retirement obligations, depreciation of fixed assets, valuation of receivables, 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 investment 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 2019**

During the current year, the Authority adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. As a result of implementation of this statement in 2019, the Authority reported an asset retirement obligation (liability) and a corresponding deferred outflow of resources for AROs associated with certain tangible assets. The standard was implemented retrospectively, and 2018 has been restated accordingly. The Authority's beginning net position balances were not affected by the implementation of this new standard.

During the current year, the Authority adopted GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Authority's beginning balances and current year results were not affected by the implementation of this new standard.

#### **Pending Changes in Accounting Principles**

In June 2017, GASB issued Statement No. 87, *Leases*. The primary objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability, and consistency of information about the leasing activities of governments. The provisions of this statement are effective for the Authority's 2020 financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period incurred, and not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The provisions of this statement are effective for the Authority's 2020 financial statements.

The Authority is currently assessing the impact that adoption of these standards will have on its financial statements.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### 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, commercial paper not to exceed 270 days, obligations of the U.S. or Pennsylvania government which are backed by the full faith and credit of the U.S. or Pennsylvania government, certain high-quality corporate and bank instruments, 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, 2019, \$6,237,166 of the Authority's bank balance of \$11,950,324 was exposed to custodial credit risk. As of December 31, 2018, \$4,197,510 of the Authority's bank balance of \$11,580,996 was exposed to custodial credit risk. Cash and cash equivalents exposed to credit risk were as follows at December 31, 2019 and 2018:

	2019	2018
Uninsured and Uncollateralized	-0-	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-	-0-
Uninsured and Collateral Held by the Pledging Financial Institution's Trust Department not in the Authority's Name	<u>6,273,166</u>	<u>4,197,510</u>
	<b>6,273,166</b>	<b>4,197,510</b>

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

	2019	2018
Uninsured Amount Above	6,273,166	4,197,510
Plus: Insured Amount	<u>5,677,158</u>	<u>7,383,486</u>
Bank Balance	11,950,324	11,580,996
Deposits in Transit	644,062	951,751
Outstanding Checks	<u>(1,021,390)</u>	<u>(478,460)</u>
Carrying Amount - Bank Balances	11,572,996	12,054,287
Petty Cash	3,650	3,650
Money Market Funds and Commercial Paper		
Classified as Cash Equivalents	9,429,544	5,141,587
Escrow Deposits in Restricted Assets	(1,411,854)	(1,607,962)
Certificates of Deposit Classified as Investments	<u>(5,427,158)</u>	<u>(7,079,950)</u>
<b>Total Cash and Cash Equivalents</b>		
<b>    Per Financial Statements</b>	<b>14,617,178</b>	<b>8,511,612</b>



# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Investments

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statements of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments' fair value measurements are as follows at December 31, 2019 and 2018:

	Recorded Value	2019 Fair Value Measurements Using			Maturity
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
<b>Investments Recorded at Fair Value:</b>					
U.S. Agency Securities	2,300,321		2,300,321		< 1 Year
	2,898,080		2,898,080		1 - 5 Years
	2,666,502		2,666,502		6 - 10 Years
	929,654		929,654		> 10 Years
U.S. Treasury Securities	4,577,336		4,577,336		< 1 Year
	16,028,993		16,028,993		1 - 5 Years
	3,370,030		3,370,030		6 - 10 Years
Money Market Mutual Funds	5,726,654	5,726,654			
Commercial Paper	<u>8,230,144</u>		<u>8,230,144</u>		< 1 Year
<b>Total Investments at Fair Value</b>	<b>46,727,714</b>	<b>5,726,654</b>	<b>41,001,060</b>	<b>-0-</b>	

	Recorded Value	2018 Fair Value Measurements Using			Maturity
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
<b>Investments Recorded at Fair Value:</b>					
U.S. Agency Securities	2,788,386		2,788,386		< 1 Year
	5,410,964		5,410,964		1 - 5 Years
	3,708,521		3,708,521		6 - 10 Years
	2,149,101		2,149,101		> 10 Years
U.S. Treasury Securities	5,351,384		5,351,384		< 1 Year
	11,254,953		11,254,953		1 - 5 Years
	3,578,465		3,578,465		6 - 10 Years
Money Market Mutual Funds	7,732,964	7,732,964			
Commercial Paper	<u>2,544,535</u>		<u>2,544,535</u>		< 1 Year
<b>Total Investments at Fair Value</b>	<b>44,519,273</b>	<b>7,732,964</b>	<b>36,786,309</b>	<b>-0-</b>	

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Investments (Continued)

Debt and equity securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Debt securities categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices.

#### Interest Rate Risk

The Authority has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Credit Risk

The Authority has a formal investment policy that limits its investment choices to certain credit ratings. As of December 31, 2019 and 2018, the Authority's investments were rated as:

	<b>2019</b>		
	<b>AAA</b>	<b>AA</b>	<b>A</b>
U.S. Agency Securities	8,794,557		
U.S. Treasury Securities	23,976,359		
Money Market Mutual Funds	5,726,654		
Commercial Paper	<u>                    </u>	<u>—</u>	<u>8,230,144</u>
	<b>38,497,570</b>	<b>-0-</b>	<b>8,230,144</b>
		<b>2018</b>	
	<b>AAA</b>	<b>AA</b>	<b>A</b>
U.S. Agency Securities	14,056,972		
U.S. Treasury Securities	20,184,802		
Money Market Mutual Funds	7,732,964		
Commercial Paper	<u>                    </u>	<u>—</u>	<u>2,544,535</u>
	<b>41,974,738</b>	<b>-0-</b>	<b>2,544,535</b>

#### 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 Farm Credit Bank and Federal National Mortgage Association Pool. These investments are 5.7% and 6.6% 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, 2019 and 2018, none of the Authority's investments were exposed to custodial credit risk.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Reconciliation of Investments to Financial Statements

	<b>2019</b>	<b>2018</b>
Total Investments Per Footnotes	46,727,714	44,519,273
Less: Money Market Funds/Commercial Paper	(9,429,544)	(5,141,587)
Less: Investments in Escrow Deposits	(669,557)	(31,525)
Add: Certificates of Deposit	<u>5,427,158</u>	<u>7,079,950</u>
<b>Total Investments per Financial Statements</b>	<b>42,055,771</b>	<b>46,426,111</b>

The following schedule summarizes investments and their classifications in the statements of net position at December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Unrestricted Assets:		
Investments	13,343,520	18,068,589
Restricted Assets:		
Investments with Trustee	9,071,469	9,044,524
Closure and Post-Closure Care Funds	<u>19,640,782</u>	<u>19,312,998</u>
	<b>42,055,771</b>	<b>46,426,111</b>

### NOTE 3 - INVESTMENTS with TRUSTEE

Pursuant to the Amended and Restated Trust Indenture dated March 17, 1998, debt service reserve funds are held by the trustee and are classified as restricted assets in the accompanying statements of net position.

### NOTE 4 - NOTES RECEIVABLE

#### Mortgage Note Receivable

On December 22, 2009, the Authority sold real estate to an individual. In conjunction therewith, the Authority held a mortgage note receivable in the original principal amount of \$470,800. The individual defaulted on the note during 2019, and the Authority entered into an Agreement for a short sale. A loss of \$102,474 was recognized by the Authority resulting from the proceeds from the sale of the property being insufficient to cover the balance outstanding on the loan.

#### Note Receivable from Inashco North America Lancaster, LLC

During the year ended December 31, 2017, the Authority entered into a promissory note agreement with Inashco North America Lancaster, LLC for loan proceeds up to \$11,000,000. The loan was subject to interest only until June 1, 2019, at which time principal and interest at a rate of 5% is payable monthly. The commercial operation date was June 1, 2019. The loan will be paid over ten years. The loan is secured by a first lien security interest on the facility, a one year letter of credit, and a one year guaranty of Inashco's parent company. At December 31, 2019, the Authority has advanced the full \$11,000,000 on the improvement loan. The outstanding principal balance was \$10,497,887 and \$8,617,030 as of December 31, 2019 and 2018, respectively.

**Lancaster County Solid Waste Management Authority**

NOTES to FINANCIAL STATEMENTS

(Continued)

**NOTE 4 - NOTES RECEIVABLE (Continued)**

Notes receivable balances at December 31, 2019 and 2018, are summarized as follows:

	<b>December 31, 2019</b>		
	<b>Current Portion</b>	<b>Long-Term Portion</b>	<b>Total</b>
Inashco North America Lancaster, LLC Note	895,508	9,602,379	10,497,887

  

	<b>December 31, 2018</b>		
	<b>Current Portion</b>	<b>Long-Term Portion</b>	<b>Total</b>
Mortgage Note Receivable	335,095		335,095
Inashco North America Lancaster, LLC Note	<u>450,470</u>	<u>8,166,560</u>	<u>8,617,030</u>
	<b>785,565</b>	<b>8,166,560</b>	<b>8,952,125</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 5 - REAL ESTATE, FACILITIES, and EQUIPMENT - CAPITAL ASSETS

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

	Balance January 1, 2019	Additions	Deletions/ Transfers	Balance December 31, 2019
Capital Assets not Being Depreciated:				
Land and Improvements	24,108,041	1,207,611	-0-	25,315,652
Construction in Progress	<u>21,870,288</u>	<u>3,824,095</u>	<u>(2,594,402)</u>	<u>23,099,981</u>
<b>Total Capital Assets not         Being Depreciated</b>	<b>45,978,329</b>	<b>5,031,706</b>	<b>(2,594,402)</b>	<b>48,415,633</b>
Capital Assets Being Depreciated:				
Lancaster Waste-to-Energy Facility	146,726,311	822,465	(65,866)	147,482,910
Accumulated Depreciation	(110,978,577)	(4,408,530)	7,932	(115,379,175)
Susquehanna Resource Management Complex	136,103,601	1,153,901	(519,556)	136,737,946
Accumulated Depreciation	(22,648,215)	(5,507,572)	554,226	(27,601,561)
Landfill Facility	67,670,336	982,159	(154,870)	68,497,625
Accumulated Depreciation	(60,798,054)	(410,686)	168,181	(61,040,559)
Transfer Station Complex	26,360,029	449,870	143,731	26,953,630
Accumulated Depreciation	(8,397,252)	(927,935)	13,130	(9,312,057)
Satellite Transfer Station	-0-	76,158	28,236	104,394
Accumulated Depreciation	-0-	(994)	-0-	(994)
Equipment	22,920,677	4,143,663	(1,040,496)	26,023,844
Accumulated Depreciation	(13,467,557)	(2,805,602)	1,027,926	(15,245,233)
Support Facilities	9,954,021	628,247	1,980,984	12,563,252
Accumulated Depreciation	(3,302,562)	(371,705)	10,641	(3,663,626)
Other Real Estate	7,403,241	349,058	(1,271,344)	6,480,955
Accumulated Depreciation	(1,451,711)	(230,206)	35,155	(1,646,762)
Administrative Building and Equipment	4,319,867	147,259	(44,410)	4,422,716
Accumulated Depreciation	<u>(3,158,523)</u>	<u>(287,908)</u>	<u>101,937</u>	<u>(3,344,494)</u>
<b>Capital Assets Being         Depreciated, net</b>	<b><u>197,255,632</u></b>	<b><u>(6,198,358)</u></b>	<b><u>975,537</u></b>	<b><u>192,032,811</u></b>
<b>Capital Assets, net</b>	<b>243,233,961</b>	<b>(1,166,652)</b>	<b>(1,618,865)</b>	<b>240,448,444</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 6 - CONSTRUCTION in PROGRESS

The Authority has uncompleted projects shown as follows:

Description	Balance January 1, 2019	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2019
Lancaster Waste-to-Energy Facility	256,400	770,713	(227,045)	800,068
Susquehanna Resource Management Complex	187,658	717,197	(34,670)	870,185
Landfill Facility	21,083,236	1,373,807	(2,015,912)	20,441,131
Transfer Station Complex	314,758	962,378	(288,539)	988,597
Muddy Creek Property	28,236	-0-	(28,236)	-0-
	<u>21,870,288</u>	<u>3,824,095</u>	<u>(2,594,402)</u>	<u>23,099,981</u>

Construction in progress relates to future landfill development associated with vertical expansion of the Frey Farm Landfill and improvement projects at the Susquehanna Resource Management Complex and Lancaster facilities. To date, the Authority has accumulated \$20.4 million in development costs associated with its landfill vertical expansion that was permitted in July 2017.

### NOTE 7 - 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-four of the forty-seven properties at a cost of \$6,039,409. The Authority has resold sixteen of the twenty-four properties, net of costs, for \$2,422,878. Those sixteen properties were purchased by the Authority for \$2,640,194. The Authority also made improvements to these properties in the amount of \$81,474. In addition, the Authority has been relieved of the obligation to purchase two of the forty-seven properties.

The Authority owns two undeveloped tracts of land totaling 39.626 acres in Conoy Township located at River Road and Locust Grove Road. The carrying amount of the property is \$801,975 at December 31, 2019, including incidental capitalized costs.

The Authority owns an undeveloped 12.98 acre property in East Cocalico Township located at 425 South Muddy Creek Road, Denver, PA. There is an existing land development plan for the property and the Authority has posted a letter of credit in the amount of \$287,013 with the Township to keep the land development plan in place. In the future, the Authority may consider developing this property for use as an additional transfer station.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 7 - OTHER ASSETS, REAL ESTATE PURCHASES, and SALE COMMITMENTS (Continued)

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. 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 8 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2019 and 2018:

	2019	2018
Accrued Host Fees	369,787	290,179
Accrued DEP Recycling Fees	673,482	771,027
Accrued County Closure Fee	25,196	29,856
Accrued Haulers Rebate	1,116,847	1,119,059
Accrued Prepaid Rebate	57,690	63,792
Accrued Payroll	342,802	1,129,889
Payroll Taxes and Pension Plan		
Accrued and Withheld	188,178	288,316
Accrued Interest	248,468	257,958
Miscellaneous Accruals	<u>596,261</u>	<u>480,493</u>
	<b>3,618,711</b>	<b>4,430,569</b>

### NOTE 9 - LONG-TERM DEBT

Long-term debt at December 31, 2019, is summarized as follows:

#### **\$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 service 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%.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 9 - LONG-TERM DEBT (Continued)

#### **\$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 and are interest only for the twenty-year term. 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. At the end of twenty years the Authority has the option to repay the bonds or to convey the Susquehanna Resource Management Complex to Dauphin County, in which case the County must repay the bonds.

Long-term debt consists of the following at December 31, 2019:

	2013 A Series	2013 B Series	Total
Principal Amount Due	88,985,000	24,000,000	112,985,000
Less: Current Portion	<u>4,550,000</u>	<u>-0-</u>	<u>4,550,000</u>
Long-Term Principal Due	<b>84,435,000</b>	<b>24,000,000</b>	<b>108,435,000</b>
Original Issue Premiums, net of Accumulated Amortization			<u>4,287,245</u>
<b>Long-Term Debt, net of Current Portion</b>			<b>112,722,245</b>

Long-term debt consists of the following at December 31, 2018:

	2013 A Series	2013 B Series	Total
Principal Amount Due	93,315,000	24,000,000	117,315,000
Less: Current Portion	<u>4,330,000</u>	<u>-0-</u>	<u>4,330,000</u>
Long-Term Principal Due	<b>88,985,000</b>	<b>24,000,000</b>	<b>112,985,000</b>
Original Issue Premiums, net of Accumulated Amortization			<u>4,801,264</u>
<b>Long-Term Debt, net of Current Portion</b>			<b>117,786,264</b>

The following is a summary of the Authority's long-term debt transactions for the years ended December 31, 2019 and 2018:

	2019	2018
Debt Outstanding - January 1	117,315,000	121,440,000
New Debt Issuance	-0-	-0-
Repayments	<u>(4,330,000)</u>	<u>(4,125,000)</u>
<b>Debt Outstanding - December 31</b>	<b>112,985,000</b>	<b>117,315,000</b>



# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 9 - LONG-TERM DEBT (Continued)

The annual debt service requirements for all outstanding debt as of December 31, 2019, are as follows:

Year	Principal	Interest	Dauphin County Reimbursement **	Net
2020	4,550,000	5,668,163	(960,000)	9,258,163
2021	4,775,000	5,440,663	(960,000)	9,255,663
2022	5,015,000	5,201,913	(960,000)	9,256,913
2023	5,265,000	4,951,163	(960,000)	9,256,163
2024	5,495,000	4,719,113	(960,000)	9,254,113
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>
	<b>112,985,000</b>	<b>54,040,031</b>	<b>(13,440,000)</b>	<b>153,585,031</b>

\*\* 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 10 - OTHER LONG-TERM LIABILITIES

Balances consisted of the following at December 31, 2019 and 2018:

	2019	2018
Nonqualified Deferred Compensation Plan Obligation	137,266	335,715
Capacity Reserves	520,704	260,352
Performance Deposit	-0-	100,000
Escrow Liability	500,000	1,350,000
Other	<u>-0-</u>	<u>34,876</u>
	<b>1,157,970</b>	<b>2,080,943</b>

**Lancaster County Solid Waste Management Authority**

NOTES to FINANCIAL STATEMENTS

(Continued)

**NOTE 11 - NET POSITION**

**Net Investment in Capital Assets** - Net investment in capital assets consists of the Authority's capital assets, net of accumulated depreciation, and less the outstanding balance of debt attributable to the acquisition or construction of those assets.

**Restricted** - Restricted net position is comprised of the following as of December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Restricted for Landfill Closure and Post-Closure		
Care Costs	6,059,486	8,396,852
Other	<u>911,854</u>	<u>257,962</u>
	<b>6,971,340</b>	<b>8,654,814</b>

**Unrestricted** - 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 are reported at the fair values of the investments in the funds, are included in unrestricted net position, and are board designated to their defined purpose. For the years ended December 31, 2019 and 2018, the balance of unrestricted net position is as follows:

	<b>2019</b>	<b>2018</b>
Board Designated Unrestricted Net Position:		
Construction/Capital Reserve Fund	12,225,460	13,635,666
Revenue Reserve Fund	<u>8,585,174</u>	<u>8,326,623</u>
<b>Total Board Designated Unrestricted Net Position</b>	<b>20,810,634</b>	<b>21,962,289</b>
Undesignated Unrestricted Net Position	<u>16,378,943</u>	<u>13,199,325</u>
<b>Total Unrestricted Net Position</b>	<b>37,189,577</b>	<b>35,161,614</b>

**NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN**

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). Benefit terms, including contribution requirements, for the MPPP are established and may be amended by the Authority's Board of Directors. The MPPP is administered by an administrative committee. A trustee receives, disburses, and invests plan assets.

**Benefit Provisions**

Normal retirement benefits are paid, commencing at age 62, in the form of a life or joint and survivor annuity, subject to certain minimum balance requirements. Lump sum payments may be paid at the option of the participant.

**Lancaster County Solid Waste Management Authority**

NOTES to FINANCIAL STATEMENTS

(Continued)

**NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN (Continued)**

**Vesting**

Participants are vested in the employer’s contributions in accordance with the following schedule:

<b>Completed Years of Service</b>	<b>Vested Percentage</b>
0 but less than 2	0%
2 but less than 3	25%
3 but less than 4	50%
4 but less than 5	75%
5 or more	100%

Forfeitures are added to the employer base contribution account of each participant who is employed by the Authority on the last day of the plan year, in proportion to compensation during the plan year.

**Employer Contributions**

The Authority contributes seven percent (7%) of the active participant’s pay to the MPPP (base contribution). The Authority also matches a participant’s contribution to the EDCP up to five percent (5%) of pay (matching contribution). All Authority 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 recognized pension expense for the years ended December 31, 2019 and 2018, of \$968,287 and \$897,872, respectively.

**Employee Contributions**

Participants may contribute to the EDCP on a pre-tax basis and a Roth 457 on a post-tax basis up to the maximum allowable by the IRS. Employees’ elected contributions for the years ended December 31, 2019 and 2018, were \$650,160 and \$577,360, respectively.

**NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS**

**Description**

The Authority maintains a single-employer defined benefit OPEB plan to provide postemployment health care insurance coverage. The Board of Directors is authorized to establish and amend the benefit provisions and contribution requirements for the plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue stand-alone financial statements.

**Benefits Provided**

The plan permits employees who retire at age 60 with 25 years or more of service, or 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 (\$1,300 per year in 2019 and \$1,040 for 2018) for retiree coverage. Healthcare can be continued for the retiree’s spouse based on a tiered premium contribution that is based on the age and years of service of the retiree. Retiree and spousal healthcare coverage ceases at age 65 or a maximum of 3 to 5 years based on the retiree’s age and years of service at retirement. The retiree’s portion of the cost is payable in advance on a monthly basis. The Authority pays the remainder of the cost.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

#### Employees Covered by Benefit Terms

At January 1, 2018, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	3
Inactive Employees Entitled to but not yet Receiving Benefits	0
Active Employees	<u>132</u>
	<b>135</b>

#### Total OPEB Liability

The Authority's total OPEB liability of \$3,505,996 was measured as of January 1, 2019, and was determined by an actuarial valuation as of January 1, 2018.

#### Actuarial Assumptions and Other Inputs

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Discount rate: 3.0%, Based on 20-Year High-Grade Municipal Rate Index
- Long Term Expected Rate of Return: N/A, the Plan is Unfunded
- Actuarial Cost Method: Entry Age Normal, Level Percent of Pay
- Healthcare Cost Trend: 5.5% for 2018, decreasing roughly 1.0% per year to an ultimate rate of 4.7% for 2020 and later years.
- Retirees' Share of Benefit-Related Costs: 100.0% of Premium
- Mortality Rates:
  - Preretirement - RP - 2014 Employee (Male and Female)
  - Postretirement - RP - 2014 Healthy Annuitant (Male and Female)

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the period ended January 1, 2018.

#### Changes in the Total OPEB Liability

	2019	2018
<b>Balance, Beginning</b>	<b>3,566,772</b>	<b>3,597,586</b>
Changes for the Year:		
Service Cost	124,133	137,261
Interest	104,524	105,877
Benefit Payments	<u>(289,433)</u>	<u>(273,952)</u>
<b>Net Changes</b>	<b><u>(60,776)</u></b>	<b><u>(30,814)</u></b>
<b>Balance, Ending</b>	<b>3,505,996</b>	<b>3,566,772</b>

**Lancaster County Solid Waste Management Authority**

NOTES to FINANCIAL STATEMENTS

(Continued)

**NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability for the plan would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

<b>Total OPEB Liability</b>	
2.0% Discount Rate (1.0% Decrease)	3,864,923
3.0% Discount Rate (Current Rate)	3,505,996
4.0% Discount Rate (1.0% Increase)	3,333,297

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability for the plan would be if it were calculated using a healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

<b>Total OPEB Liability</b>	
4.4% Decreasing to 3.7% (1% Decrease)	3,258,268
5.4% Decreasing to 4.7% (Current Rate)	3,505,996
6.4% Decreasing to 5.7% (1% Increase)	3,923,452

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2019, the Authority recognized OPEB expense of \$426,650. At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience		26,356
Changes of Assumptions	<u>826,247</u>	<u>        </u>
	<b>826,247</b>	<b>26,356</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year ended December 31:	
2020	197,993
2021	197,993
2022	197,993
2023	197,993
Thereafter	<u>7,919</u>
	<b>799,891</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 14 - 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 \$3,565,481 and \$3,634,430 at December 31, 2019 and 2018, 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 years ended December 31, 2019 and 2018, the Authority received reimbursement from the fund for various claims totaling \$49,887 and \$186,327, respectively.

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 or provide escrow to secure that commitment. The program also provides for risk-sharing among program participants. As of December 31, 2019, 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, cyber 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, 2019 and 2018, 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 \$55,000 individually and \$1,304,148 in the aggregate. At December 31, 2019, management is not aware of any additional assessments related to the health plan.

### **NOTE 15 - COMMITMENTS and CONTINGENCIES**

#### **Covanta Service Agreements**

The Authority has contracted with subsidiaries of Covanta Holdings to operate its WTE and SRMC facilities. As the largest waste to energy facility operator in the world, Covanta possesses a high degree of technical expertise that the Authority chose to leverage versus undertaking the development of staff and processes to accomplish similar facility performance.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

#### **Covanta Service Agreements (Continued)**

The Authority entered into service agreements (the Master Service Agreements) with Covanta Lancaster, Inc. and Covanta Harrisburg, Inc., collectively the Covanta Parties, effective January 1, 2018. Under the Master Service Agreements, the Covanta Parties are obligated to operate and maintain waste-to-energy facilities in Lancaster and Harrisburg, Pennsylvania. The agreements can be terminated under limited circumstances, as defined in the agreements. The terms of the Master Service Agreements are fifteen years. The Master Service Agreements sets forth terms for the Covanta Parties to accept, process, and manage minimum acceptable waste at each facility for a fee established under the contract. The parent of the Covanta Parties, Covanta Holdings, provided a limited guaranty of the obligations of the Covanta Parties.

#### **Forwards Contracts**

As a baseload electric generator in PJM, the Authority has capacity commitments for both its Lancaster Waste-to-Energy (WTE) and Susquehanna Resource Management Complex (SRMC) facilities that provide supplemental revenue into the system. PJM ensures long-term grid reliability by procuring the appropriate amount of power supply resources (capacity) needed to meet predicted energy demand three years into the future. As such, capacity represents a commitment of resources to deliver when needed, particularly in case of a grid emergency. If the Authority were to fail to meet its capacity obligations during an emergency event, the capacity revenue would be subject to penalties based on the duration and shortfall specifics of the event. In 2018, the Authority implemented a three-year plan to build a reserve equal to half of the maximum exposure of one and half times the annual capacity revenue. A reserve of \$520,704 and \$260,352 was recorded as of December 31, 2019 and 2018, respectively.

The Authority contracts with various customers for electric via short-term contracts. In the event the Authority fails to meet its obligation under the contracts, the Authority is liable for damages in the amount of any deficiency between the contract price and the replacement price for the specified electric capacity as stated in the agreement.

#### **Assignment and Assumption of City of Harrisburg Waste Disposal Agreement**

As described in Note 1, the Authority is responsible to dispose and process all MSW generated in the County of Dauphin, including 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 was \$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. In 2019 and 2018, the City of Harrisburg delivered 38,880 and 38,315 tons, which resulted in rebates of \$88,000 and \$34,557 (including interest) for the years ended December 31, 2019 and 2018, respectively.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)**

#### **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.

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.

#### **Electric Plant Lease and Related Agreement**

Upon 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). 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. Covanta Harrisburg, Inc. operates the Electric Plant on behalf of Columbia. Columbia Borough purchases the steam output of the mass burn facility, and sells the generated electricity to the Commonwealth of Pennsylvania, Department of General Services (DGS). All payments by DGS for electricity so purchased are deposited by a third party energy manager into an escrow account after deducting management fees.

From the escrow account, the following amounts due under the arrangement and related agreements, in order of priority, are paid: (1) payments due to the electric plant operator; (2) \$4,168 per month payable to Columbia Borough; (3) rent payable to the Authority; and (4) the cost of Columbia's purchase of the 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.



# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)**

#### **Electric Plant Lease and Related Agreement (Continued)**

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.

#### **Steam Sale Agreement**

On June 22, 2016, the Authority entered into an Equipment and Facilities Agreement and a Utilities Agreement with Perdue Agribusiness LLC (Perdue). The agreements were further modified July 2017. As required by the Equipment and Facilities Agreement, the Authority directed Covanta Lancaster, Inc. to connect the Conoy Waste-to-Energy Facility to the Soybean Processing facility constructed by Perdue on the adjacent property so that medium pressure steam can be conveyed from the Authority to Perdue. Terms within the Utilities Agreement establish rates for an initial term (ten years) which are accretive to the Authority’s existing use and sales opportunities for energies generated by this facility. The steam engineering and connection modification was completed in 2017 and Perdue reimbursed the Authority \$6,247,205 for a substantial portion of the modification costs. The Authority is obligated to maintain the steam bridge through the life of the agreement. The Authority provides steam and other utilities to Perdue as provided in the Utilities Agreement. Revenue recognized pursuant to the Utilities Agreement was \$3,293,054 and \$3,582,016 for the years ended December 31, 2019 and 2018, respectively.

#### **Ash Recycling Service Agreement, Licensing and Improvement Loan**

In July 2017, the Authority entered into amended and restated agreements with Inashco North America Lancaster, LLC (Inashco), whereby the Authority will license to Inashco a facility site adjacent to the Frey Farm Landfill, and Inashco will construct and operate an ash recycling and processing facility to extract marketable materials from the ash by-product of the Authority’s WTE and SRMC facilities. The term of the service agreement and license agreement is twenty years from June 1, 2019. The Authority will earn a share of net revenue as defined in the agreement. Both the Authority and Inashco have established minimum performance obligations within the agreement. The Authority has covenanted to deliver all ash produced by processing a required minimum volume of processed tons through its facilities during the term of the service agreement, and is subject to penalty for shortfalls. Inashco has covenanted to remit a minimum monthly revenue assuming the Authority has provided the ash from the minimum processed tonnage as obligated.

#### **Vertical Expansion Appeal**

The Authority is constructing a vertical expansion of the Frey Farm Landfill that was permitted by the Pennsylvania Department of Environmental Protection (“DEP”) in July of 2017. A group comprised of seven appellants filed an appeal to the DEP permit in August 2017. In addition, in November 2017, a group composed of primarily the same appellants appealed both the local Zoning Permit for the vertical expansion and the underlying Zoning Ordinance. On November 21, 2018, the Authority and the appellants entered into a Settlement Agreement concerning the appeals.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

#### Vertical Expansion Appeal (Continued)

In March 2019, pursuant to the settlement agreement, the appeals were withdrawn. The settlement agreement requires the Authority to purchase a residential property if requested to do so by the property owners. Management estimates the value of the property to be \$400,000 to \$500,000, although the property has not yet been appraised. The agreement also imposes several other requirements upon the Authority, primarily related to a visual mitigation plan for the site and limiting future landfill expansion.

#### Landfill Closure and Post-Closure Care Costs

Landfill closure and post-closure care 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, 2019 and 2018. 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, 2019, 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:

	<b>2019</b>	<b>2018</b>
<b>Frey Farm Landfill**</b>		
Total Estimated Closure and Post-Closure Costs	30,119,541	27,616,765
Capacity Used at December 31	<u>60.40%</u>	<u>58.10%</u>
Closure and Post-Closure Costs Recognized	18,195,837	16,032,911
Closure and Post-Closure Costs Paid To-Date	<u>8,914,541</u>	<u>8,896,765</u>
Net Liability	<b>9,281,296</b>	<b>7,136,146</b>
Closure and Post-Closure Costs Remaining to be Recognized	11,923,704	11,583,854
Date that Capacity will be Reached	2038	2038
<b>Susquehanna Resource Management Complex Ashfill ***</b>		
Total Estimated Closure and Post-Closure Costs	4,096,000	3,480,000
Capacity Used at December 31	<u>86.5%</u>	<u>86.5%</u>
Closure and Post-Closure Costs Recognized	4,096,000	3,480,000
Closure and Post-Closure Costs Paid To-Date	<u>-0-</u>	<u>-0-</u>
Net Liability	<b>4,096,000</b>	<b>3,480,000</b>
Closure and Post-Closure Costs Remaining to be Recognized	-0-	-0-
Date that Capacity will be Reached	2027	2020

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

#### Landfill Closure and Post-Closure Care Costs (Continued)

\*\* The Frey Farm Landfill is in the process of vertical expansion which provides additional capacity to accept waste. As a result, the Authority has revised estimates for the total estimated closure and post-closure costs and the date capacity will be reached.

\*\*\* The Authority did not utilize capacity at the Susquehanna Resource Management Complex Ashfill. The Authority recognized the total estimated closure and post-closure costs at December 31, 2019 and 2018 based on the estimated date capacity will be reached assuming the ashfill is used for transfer of residue from Susquehanna Resource Management Complex operations.

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

	2019	2018
<b>Creswell Landfill</b>		
Current Portion	204,000	150,000
Long-Term Portion	<u>-0-</u>	<u>150,000</u>
	<b>204,000</b>	<b>300,000</b>

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 2019 and 2018, are as follows:

	2019	2018
<b>Closure and Post-Closure Care</b>		
Frey Farm Landfill		
Capacity Used in Current Year	709,930	1,026,071
Change in Estimate	<u>1,452,998</u>	<u>832,453</u>
	2,162,928	1,858,524
Susquehanna Resource Management Complex Ashfill		
Change in Estimate	616,000	82,000
<b>Post-Closure Care</b>		
Creswell Landfill		
Difference Between Actual and Estimated Costs - Current Year	90,416	33,629
Change in Estimate	<u>54,000</u>	<u>13,000</u>
	<u>144,416</u>	<u>46,629</u>
	<b>2,923,344</b>	<b>1,987,153</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

#### Closure Collateral Funds and Other Commitments

In accordance with rules and regulations of the PaDEP, 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 PaDEP. The Authority also issues letters of credit related to improvement projects pursuant to local regulations. At December 31, 2019, the letters of credit issued totaled \$16,640,114 and are secured by deposits of \$21,603,212 with a margined value of \$18,602,544 (such deposits are included in the Authority's restricted assets) that are pledged to the financial institution which issued the letters of credit. At December 31, 2019 and 2018, letters of credit amounts are as follows:

Sites	2019	2018
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>
<b>Total Closure Collateral</b>	<b>16,640,114</b>	<b>16,640,114</b>

#### Performance Bonds

In connection with the construction of the Frey Farm Vertical Expansion and certain other construction projects, the Authority has issued performance bonds of approximately \$1.2 million in favor of third parties.

#### Real Estate

The Authority acquired land in Conoy Township from Talen Energy for \$1,510,000. In conjunction with the real estate acquisition, the Authority agreed to sell portions of the land acquired to various agencies. In 2019, the Authority sold these properties for \$366,614, and recognized a loss of \$421,868 on the transactions. The Authority entered into two agreements of sale with a non-related party (Purchaser) on August 21, 2019 for the purchase of two parcels: (1) approximately 19.762 acres of land with settlement on or before January 31, 2020 and (2) approximately 10.335 acres of land with settlement approximately on or before December 31, 2021, timing contingent upon the Authority's completion of certain roadway improvements. See Note 19 for related subsequent event disclosure.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)**

#### **Other Contingencies**

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

#### **Other Contingencies**

The Authority has agreed to provide funding to Manor Township over a three-year period for construction and maintenance of a bridge which neighbors the Authority's landfill. The total commitment is \$500,000 which \$166,666 was paid in December 2019. The remaining will be paid in equal installments of \$166,667 due March 2020 and January 2021.

The Authority has also agreed to provide grant funding to a non-profit organization to support the entity's mission of economic development and public welfare in communities surrounding the Authority's landfill. The grant agreement is for a three-year term beginning January 2020, and provides for annual funding of \$85,000 payable in equal monthly installments.

#### **Permits and Approvals**

The Authority obtained special exception approval in June 1986, from the Manor Township Zoning Hearing Board (ZHB), to landfill on the property now known as the Frey Farm Landfill. In connection with that approval, the Manor Township ZHB issued a decision with a series of conditions, which stated, among other items, 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 any facility for the incineration of refuse." The meaning and effect of the Manor Township ZHB decision were clarified by an Agreement with Manor Township (issued in 2002 and amended in 2015) and the PALE Consent Order (issued in 2002 and amended in 2015). Furthermore, the Manor Township Board of Supervisors voted in September 2016 to amend the Manor Township Zoning Ordinance to designate landfills and solid waste processing facilities as uses permitted by right within the Manor Township Excavation Zone. However, the Authority believes the June 1986 Manor Township ZHB decision, the Agreement with Manor Township, the PALE Consent Order, and the September 2016 Manor Township Ordinance may constitute governmental action that is subject to change in the future. In addition, an appeal of the amended Zoning Ordinance has been filed as described on page 39, Vertical Expansion Appeal. Therefore, there is no assurance that future zoning and governmental designations will permit use of the Authority's properties for intended purposes; neither is there assurance the Authority will be able to satisfy whatever governmental, regulatory, or other conditions might be applicable to the Authority's use of the properties for intended purposes.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

#### Litigation

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

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

#### Asset Retirement Obligations

The Authority accounts for certain costs associated with the future retirement of the Susquehanna Resource Management Complex, the Transfer Station Complex, and the Lancaster Waste-to-Energy Facility in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations (AROs)*. For the Authority, the act of placing the facilities into operation required the recognition of liabilities and corresponding deferred outflows of resources equal to the estimated current costs of activities that the PaDEP requires the Authority to perform upon the future retirement of the facilities.

The Authority adjusts the estimates annually for the effects of inflation or deflation, and other relevant factors that may increase or decrease the estimated asset retirement outlays associated with the obligations. Deferred outflows of resources are then reduced and recognized as an expense in a systematic manner over the remaining useful life of the facility.

Estimated asset retirement obligations by facility are as follows at December 31:

	2019	2018
<b>Susquehanna Resource Management Complex</b>		
Estimated Asset Retirement Obligation	259,090	254,010
Remaining Useful Life of Facility	15	

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

#### Asset Retirement Obligations (Continued)

	2019	2018
<b>Transfer Station Complex</b>		
Estimated Asset Retirement Obligation	94,777	92,919
Remaining Useful Life of Facility	30	
<b>Lancaster Waste-to-Energy Facility</b>		
Estimated Asset Retirement Obligation	468,882	459,688
Remaining Useful Life of Facility	25	
<b>Total Asset Retirement Obligations</b>	<b>822,749</b>	<b>806,617</b>
<b>Deferred Outflows of Resources Related to AROs</b>	<b>768,117</b>	<b>806,617</b>

The Authority is required to provide funding and assurance for its AROs by setting aside assets restricted for payment of the AROs and carrying insurance to cover ARO amounts. The Authority carries liability insurance of \$1 million to cover any costs associated with its AROs, and has pledged collateral bonds in favor of PaDEP totaling \$887,226.

#### Open Construction Contract Commitments

At December 31, 2019, the Authority has open construction contract commitments totaling \$394,308 for various projects at Authority facilities. The Authority also has \$743,663 of retainage and other amounts related to these contracts which are included in accounts payable at December 31, 2019.

### NOTE 16 - MAJOR CUSTOMERS

Tipping fee revenues include transactions with major customers (customers whose sales comprise 8% or more of total tipping fees) as follows for the years ended December 31, 2019 and 2018:

	2019		2018	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer A	8,057,360	626,358	8,777,511	627,386
Customer B	9,358,349	776,220	8,496,928	753,399

Energy revenues include transactions with major customers as follows for the years ended December 31, 2019 and 2018:

	2019		2018	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer D			4,391,079	414,280
Customer E			7,144,065	628,865
Customer F	10,698,992	948,994		

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 17 - RELATED PARTY TRANSACTIONS**

The Authority leases a residential property in East Hempfield Township to a former employee. The initial term of the lease is from November 1, 2014 until January 10, 2024. Yearly rental under the lease is \$24,000. Rental revenue recognized by the Authority in both 2019 and 2018, was \$24,000.

### **NOTE 18 - RECLASSIFICATIONS**

Certain items on the financial statements for the year ended December 31, 2018, have been reclassified to conform to the 2019 financial statement presentation. These reclassifications had no effect on net position for the year ended December 31, 2018.

### **NOTE 19 - SUBSEQUENT EVENTS**

The Authority had a matter being arbitrated with Perdue under the arbitration provisions of the Utilities Agreement with Perdue. The arbitration award was issued in February 2020 with an unfavorable outcome to the Authority. As a result, the outstanding invoices of \$515,051 with Purdue were reduced and an additional net amount of \$42,965 was owed to Purdue. These adjustments have been reflected in the accompanying 2019 financial statements.

On January 30, 2020, Authority (Seller) and a non-related third party (Purchaser) executed settlement for the sale of approximately 19.762 acres of land at a sale price of \$355,716. At the time of settlement, the Purchaser remitted a 5% deposit for the purchase of an additional 10.335 acres of land at an agreed upon per-acre value of \$18,000.

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) a pandemic. The Authority anticipates that its business operations will be impacted by the COVID-19 event but cannot currently estimate the forthcoming financial impact. Management is monitoring the evolving situation and adapting operations and decision making as necessary.



**Lancaster County Solid Waste Management Authority**  
 SCHEDULE of CHANGES in TOTAL OPEB LIABILITY and RELATED RATIOS -  
 SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN - Unaudited  
 Last 10 Fiscal Years

	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Total OPEB Liability</b>			
Service Cost	\$ 124,133	\$ 137,261	\$ 118,967
Interest	104,524	105,877	93,822
Change of Benefit Terms	-0-	-0-	-0-
Differences Between Expected and Actual Experience	-0-	-0-	(39,404)
Changes of Assumptions	-0-	-0-	1,235,281
Benefit Payments	<u>(289,433)</u>	<u>(273,952)</u>	<u>(75,314)</u>
<b>Net Change in Total OPEB Liability</b>	<b>(60,776)</b>	<b>(30,814)</b>	<b>1,333,352</b>
Total OPEB Liability - Beginning	<u>3,566,772</u>	<u>3,597,586</u>	<u>2,264,234</u>
<b>Total OPEB Liability - Ending</b>	<b><u>3,505,996</u></b>	<b><u>3,566,772</u></b>	<b><u>3,597,586</u></b>
<b>Covered Payroll</b>	\$ 7,794,515	\$ 7,284,593	\$ 7,106,920
<b>Total OPEB Liability as a Percentage of     Covered Payroll</b>	45.0%	49.0%	50.6%

Note: Information is not available prior to 2017.

See independent auditors' report.

# Lancaster County Solid Waste Management Authority

NOTES to REQUIRED SUPPLEMENTARY INFORMATION -

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

Last 10 Fiscal Years

## **Funding:**

No assets are accumulated in a trust that meet the criteria included in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, to pay related benefits.

## **Changes of Assumptions:**

Measurement period ending December 31, 2017:

Actuarial cost method was adjusted from Unit Credit method to Entry Age Normal.

Discount rate was reduced from 4.00% to 3.00%.

Salary growth changed from an annual rate of 0.00% to 2.50%.



## 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, 2019 and 2018, and our report thereon dated March 19, 2020, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on such financial statements as a whole. The schedules of condensed revenues, expenses, and changes in net position on page 49 and the concise statements for publication on page 50 as of and for the years ended December 31, 2019 and 2018, are presented for purposes of additional analysis and are not a required part of the 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 2019 and 2018 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements for the years ended December 31, 2019 and 2018, as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the statements of net position of **Lancaster County Solid Waste Management Authority** as of December 31, 2017, 2016, and 2015 and the related statements of revenues, expenses, and changes in net position and the statements of cash flows for each of the three years then ended (none of which is presented herein), and we expressed unmodified opinions on those financial statements. Those audits were conducted for purposes of forming an opinion on the financial statements as a whole. The schedules of condensed revenues, expenses, and changes in net position on page 49 is presented for purposes of additional analysis and is not a required part of the 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 2017, 2016, and 2015 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of condensed revenues, expenses, and changes in net position on page 49 is fairly stated in all material respects in relation to the financial statements from which it has been derived.

*Trout CPA*  
March 19, 2020  
Lancaster, Pennsylvania

**Lancaster County Solid Waste Management Authority**  
SCHEDULES of CONDENSED REVENUES, EXPENSES, and CHANGES in NET POSITION  
Years Ended December 31, 2019, 2018, 2017, 2016, and 2015

	2019	Restated 2018	Restated 2017	Restated 2016	Restated 2015
<b>OPERATING REVENUES</b>					
Tipping Fees, net	\$ 66,782,072	\$ 67,281,064	\$ 61,751,330	\$57,945,560	\$55,925,419
Energy	16,036,271	17,696,620	14,409,009	14,738,431	18,401,006
Transportation and Other	<u>4,219,494</u>	<u>3,458,178</u>	<u>3,150,996</u>	<u>2,439,187</u>	<u>2,745,659</u>
<b>Total Operating Revenues</b>	<b>87,037,837</b>	<b>88,435,862</b>	<b>79,311,335</b>	<b>75,123,178</b>	<b>77,072,084</b>
<b>OPERATING EXPENSES</b>					
Lancaster Waste-to Energy Facility	22,085,891	22,112,494	22,723,842	22,476,694	23,230,173
Susq. Resource Mgmt Complex	18,754,992	18,824,726	18,630,613	18,535,832	18,283,527
Depreciation	14,800,618	14,492,523	13,609,605	13,171,084	12,642,052
Landfills	5,169,371	5,213,251	4,553,918	4,284,513	4,319,801
Transfer Station Complex	7,687,925	5,360,165	3,765,041	3,241,425	3,051,474
Closure and Post-Closure Care	2,923,344	1,987,153	190,785	(234,865)	592,718
Household Hazardous Waste	<u>516,665</u>	<u>489,036</u>	<u>502,269</u>	<u>475,214</u>	<u>449,586</u>
<b>Total Operating Expenses</b>	<b>71,938,806</b>	<b>68,479,348</b>	<b>63,976,073</b>	<b>61,949,897</b>	<b>62,569,331</b>
<b>SUPPORT EXPENSES</b>	<b><u>10,600,285</u></b>	<b><u>10,198,179</u></b>	<b><u>8,523,852</u></b>	<b><u>8,097,017</u></b>	<b><u>7,445,502</u></b>
<b>Total Operating and Support Expenses</b>	<b><u>82,539,091</u></b>	<b><u>78,677,527</u></b>	<b><u>72,499,925</u></b>	<b><u>70,046,914</u></b>	<b><u>70,014,833</u></b>
<b>OPERATING INCOME</b>	<b>4,498,746</b>	<b>9,758,335</b>	<b>6,811,410</b>	<b>5,076,264</b>	<b>7,057,251</b>
<b>INTEREST and INVESTMENT EARNINGS</b>	<b>2,475,836</b>	<b>1,086,299</b>	<b>718,542</b>	<b>673,671</b>	<b>601,975</b>
<b>INTEREST EXPENSE</b>	<b>(4,401,154)</b>	<b>(4,586,685)</b>	<b>(4,681,613)</b>	<b>(4,769,778)</b>	<b>(5,139,214)</b>
<b>NET OTHER NONOPERATING REVENUES (EXPENSES) and CAPITAL CONTRIBUTIONS</b>	<b><u>(143,420)</u></b>	<b><u>841,057</u></b>	<b><u>5,521,010</u></b>	<b><u>1,660,585</u></b>	<b><u>2,626,575</u></b>
<b>CHANGES in NET POSITION</b>	<b><u>\$ 2,430,008</u></b>	<b><u>\$ 7,099,006</u></b>	<b><u>\$ 8,369,349</u></b>	<b><u>\$ 2,640,742</u></b>	<b><u>\$ 5,146,587</u></b>

See independent auditors' report on supplementary information.

# Lancaster County Solid Waste Management Authority

## CONCISE STATEMENTS for PUBLICATION

### STATEMENTS of NET POSITION

December 31, 2019 and 2018

	<b>2019</b>	<b>Restated 2018</b>
<b>ASSETS</b>		
Current Assets	\$ 39,957,753	\$ 39,558,739
Restricted Assets	30,126,456	29,967,763
Other Assets	11,151,178	11,050,744
Real Estate, Facilities, and Equipment	240,448,444	243,233,961
Deferred Outflows of Resources	<u>1,594,364</u>	<u>2,126,814</u>
<b>TOTAL ASSETS and DEFERRED OUTFLOWS of RESOURCES</b>	<b>323,278,195</b>	<b>325,938,021</b>
<b>LIABILITIES and NET ASSETS</b>		
Current Liabilities	15,254,647	16,917,471
Long-Term Liabilities	131,586,256	135,006,742
Deferred Inflows of Resources	<u>26,356</u>	<u>32,880</u>
<b>TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES</b>	<b><u>146,867,259</u></b>	<b><u>151,957,093</u></b>
<b>NET POSITION</b>	<b><u><u>176,410,936</u></u></b>	<b><u><u>173,980,928</u></u></b>

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

Years Ended December 31, 2019 and 2018

	<b>2019</b>	<b>Restated 2018</b>
<b>OPERATING REVENUES</b>	<b>87,037,837</b>	<b>88,435,862</b>
<b>OPERATING and SUPPORT EXPENSES</b>	<b><u>82,539,091</u></b>	<b><u>78,677,527</u></b>
<b>OPERATING INCOME</b>	<b>4,498,746</b>	<b>9,758,335</b>
<b>NET NONOPERATING EXPENSES</b>	<b><u>(2,068,738)</u></b>	<b><u>(2,659,329)</u></b>
<b>CHANGES in NET POSITION</b>	<b><u><u>\$ 2,430,008</u></u></b>	<b><u><u>\$ 7,099,006</u></u></b>

See independent auditors' report on supplementary information.