

SOLID WASTE AUTHORITY OF CENTRAL OHIO

**REPORT ON AUDITS OF FINANCIAL STATEMENTS
FOR YEARS ENDED DECEMBER 31, 1999 AND 1998
AND REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1st Floor
Columbus, Ohio 43215
Telephone 614-466-4514
800-282-0370
Facsimile 614-728-7398

Board of Trustees
Solid Waste Authority of Central Ohio

We have reviewed the Independent Auditor's Report of the Solid Waste Authority of Central Ohio, Franklin County, prepared by PriceWaterhouseCoopers LLP, for the audit period January 1, 1999 to December 31, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Solid Waste Authority of Central Ohio is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

September 12, 2000

Report of Independent Accountants

The Board of Trustees
Solid Waste Authority of Central Ohio

We have audited the accompanying general purpose financial statements of the Solid Waste Authority of Central Ohio as of and for the years ended December 31, 1999 and 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Solid Waste Authority of Central Ohio's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Solid Waste Authority of Central Ohio as of December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2000 on our consideration of the Solid Waste Authority of Central Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

May 31, 2000

Solid Waste Authority of Central Ohio
Balance Sheets
As of December 31, 1999 and 1998

	1999	1998
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 17,040,011	\$ 13,052,707
Accounts receivable (net of allowance for bad debts of \$3,000 and \$5,000 respectively)	2,039,780	1,872,503
Other assets	<u>133,940</u>	<u>57,812</u>
Total current assets	<u>19,213,731</u>	<u>14,983,022</u>
Noncurrent assets:		
Cash held in escrow (Note 3)	66,607	88,693
Cash held for underground storage tank fund	55,000	55,000
Restricted cash (Note 3)	3,241,694	5,406,883
Notes receivable (net of allowance for bad debts of \$408,000 and \$408,000, respectively)	-	-
Closure/postclosure funds held by trustee:		
Investments (Note 4)	11,750,173	10,338,093
Landfills (net of accumulated depletion and depreciation of \$11,173,569 and \$10,844,685 respectively)	7,559,406	7,737,313
Property, plant and equipment (net of accumulated depreciation of \$3,946,770 and \$3,216,168 respectively)	7,360,559	6,983,788
Idle plant facilities (Note 10)	6,381,572	6,433,328
Other assets	<u>96,610</u>	<u>69,906</u>
Total noncurrent assets	<u>36,511,621</u>	<u>37,113,004</u>
Total assets	<u>\$ 55,725,352</u>	<u>\$ 52,096,026</u>

Continued

The accompanying notes are an integral part of these general purpose financial statements.

Solid Waste Authority of Central Ohio
Balance Sheets
As of December 31, 1999 and 1998

	1999	1998
Liabilities and Retained Deficit		
Current liabilities:		
Accounts payable	\$ 2,019,600	\$ 1,754,796
Accrued wages and benefits	625,221	644,070
Accrued interest	4,729,800	15,445,443
Current maturities of long-term payables (Note 7 and 8)	755,000	720,000
Capital lease obligation (Note 11)	42,672,754	48,878,810
Accrued plant closing expenses (Note 10)	336,686	709,607
Other	<u>115,348</u>	<u>-</u>
Total current liabilities	<u>51,254,409</u>	<u>68,152,726</u>
Noncurrent liabilities:		
Postclosure liability--Model Landfill (Note 9)	3,111,065	4,562,792
Closure and postclosure liability--Sanitary Landfill (Note 9)	10,313,504	9,606,104
Landfill purchase contract payable (Note 7)	115,000	230,000
Capital lease obligation (Note 11)	97,602,273	109,256,457
Bonds payable (Note 8)	18,180,000	18,820,000
Other payables	<u>63,346</u>	<u>57,832</u>
Total noncurrent liabilities	<u>129,385,188</u>	<u>142,533,185</u>
Total liabilities	180,639,597	210,685,911
Retained deficit	<u>(124,914,245)</u>	<u>(158,589,885)</u>
Total liabilities and retained deficit	<u>\$ 55,725,352</u>	<u>\$ 52,096,026</u>

The accompanying notes are an integral part of these general purpose financial statements.

Solid Waste Authority of Central Ohio
Statements of Revenues, Expenses and Changes in Retained Deficit
As of December 31, 1999 and 1998

	1999	1998
Revenues:		
Tipping and disposal fees	\$ 11,238,156	\$ 11,104,877
Waste transfer fees	3,471,442	3,686,259
Retired facility and waiver fee	5,149,331	-
Generation fees	5,734,921	5,679,068
Other	<u>254,876</u>	<u>311,951</u>
Operating revenues	<u>25,848,726</u>	<u>20,782,155</u>
Expenses:		
Personal services	3,617,688	3,763,529
Contract, services and supplies	9,368,891	9,237,928
Depreciation and depletion	1,120,694	1,067,822
Landfill closing costs	707,400	756,719
Reduction of liability (Note 9)	-	(13,870,072)
Other	<u>4,542</u>	<u>-</u>
Operating expenses	<u>14,819,215</u>	<u>955,926</u>
Operating income	<u>11,029,511</u>	<u>19,826,229</u>
Nonoperating income (expenses):		
Gain on sale of assets	-	143,756
Grants	255,739	95,732
Gain on forgiveness of debt (Note 11)	27,725,490	7,236,400
Interest expense	(6,862,992)	(11,051,989)
Interest income	<u>1,527,892</u>	<u>1,407,564</u>
Total nonoperating income (expenses)	<u>22,646,129</u>	<u>(2,168,537)</u>
Net income	33,675,640	17,657,692
Retained deficit, beginning of year	<u>(158,589,885)</u>	<u>(176,247,577)</u>
Retained deficit, end of year	<u>\$(124,914,245)</u>	<u>\$(158,589,885)</u>

The accompanying notes are an integral part of these general purpose financial statements.

Solid Waste Authority of Central Ohio
Statements of Cash Flows
As of December 31, 1999 and 1998

	1999	1998
Cash flows from operating activities:		
Operating income	\$ 11,029,511	\$ 19,826,229
Adjustments to reconcile operating income to net cash provided by operating activities:		
Reduction of liability	-	(13,870,072)
Depreciation and depletion	1,120,694	1,067,822
Decrease (increase) in allowance for bad debts	3,573	(4,320)
Increase (decrease) in accounts and notes receivable	(185,458)	455,234
Increase in accounts payable	274,535	379,985
Increase (decrease) in accrued wages and benefits	(18,846)	161,392
Decrease in accrued plant closing expenses	(372,921)	(305,727)
Increase in closure and postclosure liability - Sanitary Landfill	707,400	61,918
Decrease in postclosure liability model landfill - Model Landfill	(1,451,729)	-
Decrease (increase) in other assets	(83,553)	18,125
Net cash provided by operating activities:	<u>11,023,206</u>	<u>7,790,586</u>
Cash flows from noncapital financing activities:		
Grants	<u>255,739</u>	<u>95,732</u>
Net cash provided by noncapital financing activities	<u>255,739</u>	<u>95,732</u>
Cash flows from investing activities:		
Interest received	1,451,734	1,407,564
Increase in investments	<u>(1,343,077)</u>	<u>(1,433,224)</u>
Net cash provided by investing activities	<u>108,657</u>	<u>(25,660)</u>
Cash flows from capital and related financing activities:		
Landfill, plant improvements and equipment additions	(1,267,803)	(2,774,800)
Proceeds from landfill, plant improvements and equipment disposals	-	223,773
Principal paid on landfill purchase contract payable	(115,000)	(115,000)
Principal paid on bond payable	(605,000)	(575,000)
Increase in other payables	111,224	34,832
Interest paid	<u>(7,710,994)</u>	<u>(3,044,501)</u>
Net cash (used in) provided by capital and related financing activities	<u>(9,587,573)</u>	<u>(6,250,696)</u>
Net increase in cash	1,800,029	1,609,962
Cash and cash equivalents, beginning of year	<u>18,603,283</u>	<u>16,993,321</u>
Cash and cash equivalents, end of year	<u>\$ 20,403,312</u>	<u>\$ 18,603,283</u>

Noncash capital and related financing activities

The Authority recognized a reduction in lease obligations of \$27,725,490 and \$7,236,400 in 1999 and 1998, respectively, related to the modification of the lease agreement described in Note 11.

The accompanying notes are an integral part of these general purpose financial statements.

Solid Waste Authority of Central Ohio

Notes to Financial Statements

As of December 31, 1999 and 1998

1. Organization

In response to House Bill 592 of the 117th General Assembly, the Solid Waste Authority of Central Ohio (the Authority) was established in 1989 to develop and implement a comprehensive solid waste management plan for the Franklin County Solid Waste Management District (principally Franklin County, but also including parts of five adjacent counties). The Authority is governed by a nine-member Board of Trustees appointed pursuant to statute. The Board consists of two members appointed by the Franklin County Board of County Commissioners (the County), two members appointed by the city of Columbus (the City), and additional members representing the County Board of Health, townships within the Authority, waste generators and the general public. As a governmental authority, the Authority is exempt from federal, state and local taxes.

In accordance with its solid waste management plan, the Authority purchased the former Franklin County Sanitary Landfill (the Sanitary Landfill) from the County in 1991 (see Note 7) and in 1993, leased a 90-megawatt solid waste resource recovery facility (the Waste-to-Energy Facility or WTEF) and related waste transfer facilities from the City (see Note 10). Solid waste was incinerated at the WTEF with ash and additional raw solid waste disposed at the Sanitary Landfill. Operations were supported by tipping fees for solid waste disposal and from the sale of electricity generated by the WTEF from solid waste incineration.

The WTEF was closed in November 1994 (see Note 10), and the Authority now operates the Sanitary Landfill and three solid waste transfer facilities and charges tipping fees for solid waste disposal at these facilities. In May 1998, the Authority received a permit from the Ohio Environmental Protection Agency (OEPA) to expand the Sanitary Landfill. The expansion had been included in the solid waste plan but was accelerated by the closing of the WTEF. Management expects to operate the expanded landfill for a minimum of 20 years.

The Authority also operates programs to reduce the generation and disposal of solid waste within the Authority's jurisdiction. These programs include public education and awareness, yard waste composting and other waste-reduction activities. The Authority implemented a five-dollar-per-ton waste generation fee effective November 1, 1994 to support these activities.

The Authority operates autonomously from the County and City, and the County and City have no financial responsibility for the operations of the Authority.

As part of the purchase of the currently operating landfill, the Authority also acquired Model Landfill, the County's closed former landfill. The Model Landfill has been closed since 1985, and the Authority assumed ongoing monitoring and closure requirements for the landfill when it was transferred from the County.

Solid Waste Authority of Central Ohio

Notes to Financial Statements

As of December 31, 1999 and 1998

2. Summary of Significant Accounting Policies

Basis of presentation. The Authority is presented as one enterprise fund for external reporting purposes, and the accompanying financial statements include all subfunds, activities, and functions of the Authority. The individual subfunds, activities, and functions of the Authority are not deemed to be legally separate organizations requiring discrete presentation in separate columns. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the individual subfunds do not have separate financial accountability warranting inclusion as separate component units of the reporting entity.

Measurement focus and basis of accounting. The Authority's funds are accounted for on a flow of economic resources measurement focus, and the financial statements have been prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when incurred.

Supplemental schedules. Although the Authority's financial statements are presented as one enterprise fund, the Authority maintains two distinct subfunds to segregate revenues and expenses based on statutory or contractual restrictions as to the uses of the funds. The two subfunds, the Operating Fund and the Program Fund, are shown in the supplemental schedules included on pages 2-19 and 2-20. Within the Operating Fund, continuing operations are shown separate from discontinued operations (Model Landfill and the WTEF).

The Operating Fund receives all income derived from the operations of the Authority's landfill and waste transfer facilities including tipping fees, waste transfer fees, and certain other revenues. Revenues are used to support the operations of the Authority's solid waste facilities and to pay certain costs of discontinued operations of the Authority. Within the Operating Fund, discontinued operations receive revenue dedicated to the payment of WTEF lease obligation (Note 11). Interfund transfers shown in the supplemental schedule, under nonoperating expenses, are comprised of \$2,323,548, of capital lease payments for the WTEF, \$372,920 of closure costs for the WTEF and \$1,451,728 of closure costs for the Model Landfill.

The Program Fund receives generation fees paid on waste generated in Franklin County and disposed of at the Authority's landfill or out-of-county landfills. Revenues are used only to support solid waste recycling, reuse, and reduction programs operated by the Authority in implementation of the Authority's solid waste plan. The Program Fund also includes grant revenues and expenses for grants received from the Ohio Department of Natural Resources. Interfund transfers shown in the supplemental schedule, under operating expenses, are comprised of charges to the Program Fund for administrative support.

Cash and cash equivalents. The Authority considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Investments. In January 1999, the Authority adopted *Governmental Accounting Standards Board (GASB) No 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools* which requires the accounting for investments at fair value and all investment income, including changes in the fair value of investments, should be reported as revenue in the operating statement. Investments at December 31, 1999 were valued at quoted market prices. There was no impact on net income from the change in accounting for the Authority in 1999.

Solid Waste Authority of Central Ohio

Notes to Financial Statements

As of December 31, 1999 and 1998

Property and equipment. The Authority records asset acquisitions at cost and provides for depreciation in amounts adequate to amortize cost over the estimated useful lives of the assets using a straight-line method for financial reporting purposes, except for its landfill, which is depleted using a units-of-production method.

Maintenance, repairs and minor renewals are charged to expense as incurred, while major renewals and betterments are capitalized. The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the related accounts, and resulting gains or losses are reflected in income.

Vacation and sick leave. A liability for vacation and sick leave is included in accrued wages and benefits. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, this liability includes accumulated vacation time and vested sick leave computed using employee wage rates in effect at December 31.

Application of financial accounting standards board (FASB) statements and interpretations. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority is required to apply FASB statements and interpretations issued on or before November 30, 1989, and has elected not to apply those issued after that date.

Reclassifications. Certain prior-year amounts have been reclassified to conform to the current-year financial statement presentation.

New accounting pronouncements. In December 1998, the GASB issued GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement establishes accounting and reporting standards for nonexchange transactions involving financial or capital resources. The effective date of this statement is for periods beginning after June 15, 2000. In July, 1999, the GASB issued GASB No. 34, *Basic Financial Statements and MD&A for State and Local Government*. The effective date of the statement is for periods beginning after June 15, 2002. Management will evaluate the impact of these statements on the Authority's financial statements.

Use of estimates. The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Solid Waste Authority of Central Ohio

Notes to Financial Statements

As of December 31, 1999 and 1998

3. Cash and Cash Equivalents

The Ohio Revised Code authorizes the Authority to invest in (1) bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest; (2) bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality; (3) written repurchase and reverse repurchase agreements in the securities listed above; (4) bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this state or its political subdivisions; (5) no-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and (6) the State Treasury Asset Reserve of Ohio (STAR Ohio, managed by the Treasurer of the State of Ohio). It is management's policy to invest in STAR Ohio.

Deposits. At December 31, 1999 and 1998, the carrying amount of the Authority's deposits was \$508,098 and \$1,940,338, respectively, while the bank balance was \$1,314,839 and \$2,669,596, respectively. Up to \$100,000 of these balances were insured by the Federal Depository Insurance Corporation, and remaining amounts were collateralized by collateral pools held by the financial institution and not in the name of the Authority.

Cash with STAR Ohio. At December 31, 1999 and 1998, the Authority had \$16,440,502 and \$16,574,252, respectively, invested with STAR Ohio. STAR Ohio is a highly liquid investment pool with participation restricted to subdivisions of the State of Ohio. Under Ohio Revised Code Section 135.143, STAR Ohio is restricted to investing in obligations of the U.S. government and other instruments authorized by the State of Ohio and its political subdivisions. Due to the highly liquid nature of the fund and a net asset value of \$1, STAR Ohio resembles a money market fund and, therefore, has been treated as a cash equivalent by the Authority in the financial statements. The Authority's investments in STAR Ohio are not subject to custodial risk categorization due to their nature.

Restricted cash. On December 31, 1999 and 1998, the Authority had \$3,241,694 and \$5,406,883 in an interest-bearing demand deposit account in STAR Ohio. These amounts are the unused proceeds from the general obligation bonds issued in March 1997 and restricted for the purpose of funding capital improvement projects of the Authority.

Cash held in escrow. On March 15, 1995, the Authority entered into an escrow agreement with Fifth Third Bank. The escrow account was established to hold on deposit severance benefits for those employees selected to participate in the closure of the WTEF. At December 31, 1999 and 1998, the escrow account held a cash balance of \$66,607 and \$88,692, respectively. Up to \$100,000 of these balances was insured by the Federal Depository Insurance Corporation.

Solid Waste Authority of Central Ohio
Notes to Financial Statements
As of December 31, 1999 and 1998

4. Closure/Postclosure Funds Held by Trustee

In 1995, the Authority established a trust fund with Firststar Bank (formerly Star Bank) for the benefit of the Ohio Environmental Protection Agency (OEPA), investing in cash equivalents and investments. The OEPA has certain rules applicable to the Authority, requiring that the owner or operator of a solid waste facility provide assurance that funds will be available when needed for final closure, postclosure care, and/or corrective measures of the facility. The amounts to be funded are determined by the closure and postclosure costs required to be funded divided by the pay-in period (remaining airspace divided by maximum annual receipts). The Authority is scheduled to have 100% of the estimated closure costs funded when the Sanitary Landfill stops accepting waste. The fund is restricted by the Director of the OEPA, and the Authority invests in those securities authorized by the Ohio Revised Code (see Note 3).

All amounts earned by the investments are reinvested in the fund and carried at fair market value. Fair values generally represented quoted market value prices for investments traded in the market place. The Authority's investments are categorized to give an indication of risk assumed by the Authority as follows:

- The investments are assigned a risk category of one. Category one includes insured or registered, or securities held by the Authority or its agent in the Authority's name.

At December 31, 1999 and 1998, the cost of investments in the fund at December 31, 1999 and 1998 was \$11,617,584 and \$10,274,507, respectively, and the market value was \$11,750,173 and \$10,338,093, respectively. The Authority has recorded \$132,589 in accrued interest, which represents the difference between market value and cost as of December 31, 1999. Investments consisted of government agency securities. Investment income, net of expenses, was \$556,778 and \$570,806 in 1999 and 1998, respectively.

5. Landfill and Property, Plant, and Equipment

Landfill and property, plant, and equipment are stated at cost and updated for the cost of additions and retirements during the year. As discussed in Note 9, the Authority received from the OEPA a permit for expansion of its currently operating Sanitary Landfill. Acquisition, engineering, legal and other direct costs associated with the permitting and development of this expansion are capitalized, and are being depleted based on usage of permitted capacity. The depletion of the landfill is assigned to fiscal years based on cubic yards of solid waste disposed and placed in the landfill during the year as a percentage of estimated capacity.

Depreciation has been provided on a straight-line basis over the following estimated useful lives:

Description	Estimated Life (Years)
Machinery, equipment, furniture and fixtures	5-10
Buildings and improvements	10-20

Solid Waste Authority of Central Ohio
Notes to Financial Statements
As of December 31, 1999 and 1998

A summary of property, plant and equipment at December 31, 1999 and 1998 is as follows:

	1999	1998
Transfer station assets	\$ 6,065,569	\$ 6,103,543
Motor vehicles and other equipment	3,739,629	3,154,844
Buildings and improvements	<u>1,502,131</u>	<u>941,569</u>
Total property plant and equipment	11,307,329	10,199,956
Accumulated depreciation	<u>(3,946,770)</u>	<u>(3,216,168)</u>
Property, plant and equipment at cost	<u>\$ 7,360,559</u>	<u>\$ 6,983,788</u>

6. Retirement Commitments

Plan description. The Authority contributes to the Public Employees' Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 145 of the Ohio Revised Code. The Public Employees' Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information. Interested parties may obtain a copy by making written requests to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

Funding policy. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5% for employees other than law enforcement. The employer contribution rate for local government employer units for the years ending December 31, 1999 and 1998, respectively, was 13.55% of covered payroll. The Authority's contribution to PERS, representing 100% of employer contributions, was \$571,232, \$599,819, and \$617,429 for the years ended December 31, 1999 and 1998 and 1997, respectively.

PERS provides postemployment health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to the system is set aside for the funding of postretirement health care based on authority granted by the state statute. The employer contribution rate was 13.55%; 5.11% was the portion that was used to fund healthcare for the years 1999 and 1998.

Solid Waste Authority of Central Ohio
Notes to Financial Statements
As of December 31, 1999 and 1998

7. Landfill Purchase Contract Payable

As discussed in Note 1, the Authority purchased the former Franklin County Sanitary Landfill from Franklin County in 1991. In acquiring the landfill, the Authority agreed to pay the balance of the County's general obligation bond indebtedness on the landfill. The obligation to pay the County is a contractual obligation of the Authority, but the underlying bonds remain general obligations of the County backed by the County's full faith and credit. The general obligation bonds will mature on September 1, 2001 and accrue interest at a rate of 6.5%. Future payment obligations under the contract are as follows:

<u>Year Ending December 31, —</u>	<u>Principal</u>	<u>Interest</u>
2000	115,000	14,950
2001	<u>115,000</u>	<u>7,475</u>
Total	<u>\$ 230,000</u>	<u>\$ 22,425</u>

8. Bonds Payable

In March 1997, the Authority entered into a repayment agreement with the Franklin County Board of Commissioners (Commissioners), whereby the Commissioners issued \$20 million in general obligation bonds on behalf of the Authority. The proceeds for the general obligation bonds were used to repay \$10 million bond anticipation notes which matured on August 1, 1997 and is being used for the funding of capital improvements projects (land acquisitions, landfill development, landfill and transfer site improvements) over the next three years. To collateralize repayment, the Authority granted to the County a mortgage in the landfill real property, a security interest in the personal property associated with the landfill, and an assignment of rents, permits and licenses.

The general obligation bonds mature on various dates with a final maturity on December 1, 2017. Interest accrues at fixed rates varying each year ranging from 4.3% to 5.50% and payable semiannually on June 1 and December 1. In addition, the Authority is accruing a payable at December 31, 1999 and 1998, of \$63,346 and \$57,832, respectively, which represents the difference between the interest rate that the Authority is paying on the bonds (as defined under Internal Revenue Service regulations) and the earnings rate that the Authority receives from investing the bonds proceeds.

Solid Waste Authority of Central Ohio
Notes to Financial Statements
As of December 31, 1999 and 1998

Future payment of the general obligation bonds are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>
2000	640,000	922,635	5.0%
2001	675,000	890,635	5.0%
2002	710,000	856,885	5.0%
2003	750,000	821,385	4.5%
2004	790,000	787,635	4.3%
Later years	<u>15,255,000</u>	<u>5,785,485</u>	4.3-5.5%
	<u>\$ 18,820,000</u>	<u>\$ 10,064,660</u>	

9. Closure and Postclosure Care Costs

State and federal laws and regulations require the Authority to place a final cover on its Sanitary Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only when portions of the landfill reach final waste elevation (not expected to occur before 2004), the Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. In August 1995, the Authority submitted an application to the OEPA for a permit for expansion of its currently operating Sanitary Landfill. The OEPA awarded the permit to the Authority in May 1997. The expansion increased the Sanitary Landfill waste disposal capacity by approximately 50.3 million cubic yards and increased the costs of closure and postclosure care to an estimated \$40.2 million. These amounts are estimated based on the costs to perform all closure and postclosure care in 1999. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Currently, the Authority expects to operate the landfill at a minimum of 20 years. The amounts reported as Sanitary Landfill closure and postclosure care liability of \$10.3 million and \$9.6 million, respectively, represents the cumulative amount reported at December 31, 1999 and 1998, based on the use of 100% of the estimated capacity of the landfill before expansion and 5.1% and 2.9% of the estimated capacity of the expanded landfill, respectively. The Authority will recognize the remaining estimated cost of closure and postclosure care costs of approximately \$29.9 million as the remaining estimated capacity is filled.

The Authority also maintains and monitors the Model Landfill, which has been closed since 1985. The Model Landfill is not subject to the same state and federal laws and regulations as the current operating landfill.

Solid Waste Authority of Central Ohio

Notes to Financial Statements

As of December 31, 1999 and 1998

During 1998, the Authority contracted to upgrade and maintain the Model Landfill cap and cover and to improve surface water drainage. In related agreements, during 1999 the Authority leased the Model Landfill site to private sector entities to develop a public golf course on the site, and leased the landfill gas collection system and sold the gas rights for the purpose of generating electricity.

As a result of these events, and the additional information provided to management regarding the cost of maintaining and remediating the site, management revised its estimates of the future remediation, maintenance and monitoring costs for the site. Based on these estimates, during 1998 management revised its postclosure liability to \$4,562,792. The \$13,870,072 reduction in the liability from the December 31, 1998 balance has been accounted for as an increase in 1998 net income. The amounts reported as Model Landfill postclosure care liability represents the total estimated remaining cost of the current remediation project plus estimated future remediation, maintenance and monitoring costs.

10. Waste-to-Energy Facility

On April 1, 1993, the City of Columbus leased its solid waste resource recovery plant, named the Waste-to-Energy Facility, (WTEF), and related waste transfer stations to the Authority. The Authority is required to make lease payments to the City in amounts equal to the debt service requirements on general obligation and revenue bonds the City issued for WTEF construction. The Authority recorded an asset and capital lease obligation liability for the WTEF. The assets acquired were recorded at an estimated market value equal to the liabilities assumed.

On November 1, 1994, the Authority authorized the closure of the WTEF as a solid waste incinerator due to the Authority's inability to control the flow of solid waste within its jurisdiction and consequently raise the necessary revenues to meet the cost of managing, operating and leasing the WTEF from the City. Management determined that the Authority would be unable to recover the carrying value of the WTEF at the date of closure and the WTEF was written down to \$36,594,000, and a loss of \$126,248,335 was recognized.

Since closure, management, in conjunction with the City of Columbus, has solicited proposals for either the sale or lease of WTEF for purposes other than waste disposal. Based upon the estimated fair value determined by discounting the expected cash flows of lease proposals received in 1996, management determined that the Authority would be unable to recover the carrying value of the WTEF as estimated in 1994. Consequently, in 1997 management further reduced the carrying value of the WTEF to an estimated fair value of \$6,500,000 and a loss of \$30,034,000 was recognized. Management continues to negotiate sale or lease of the facility. Any plan authorized by the Authority is subject to approval by the City as owner of the facility.

During 1994, the Authority expensed \$3,220,042 representing the estimated costs to close the WTEF. Of these estimated costs \$2,833,356 and \$2,760,435 have been paid through 1999 and 1998, leaving a liability of \$336,686 and \$459,607 at December 31, 1999 and 1998, respectively.

In November 1998, the Authority and the City of Columbus were notified by Ohio EPA that remediation activities must be carried out on the facility's retention basin, based upon a one-time sampling event. The Authority and City, prior to any communication with Ohio EPA, had begun the process to remediate any contaminants which may exist in the retention basin including the

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constituent of Ohio EPA's concern. Management's estimate of the Authority's costs to be incurred in the remediation range from \$250,000 to \$3,000,000, depending on the extent of contamination, which has not been determined. For the year ended December 31, 1998, the Authority recognized expenses of \$250,000 related to this matter, which remained reserved as of December 31, 1999.

11. Capital Lease Obligation

As described in Note 10, the Authority is required to make lease payments to the City in amounts equal to the debt service requirements on general obligation and revenue bonds the City issued to construct the WTEF. The following is a schedule of the required minimum lease payments:

<u>Year Ending December 31, —</u>	
2000	54,362,887
2001	18,045,609
2002	17,331,435
2003	16,892,701
2004	16,055,562
Later years	<u>61,030,246</u>
Total minimum lease payments	183,718,440
Less: Amount representing interest	<u>43,443,413</u>
Present value of minimum lease payments	<u>\$ 140,275,027</u>

With the closure of the facility, the Authority was no longer able to meet 100% of its lease obligation to the City. The Authority began negotiating with the City to modify the facility lease agreement, including the determination of a revised lease payment schedule agreeable to both parties. Two interim agreements were negotiated with the City, which included revised terms through the end of 1997. During 1998, the Authority and the City reached agreement on a modification to the lease (the "Third Modification"), which is applicable until the lease is paid in full. Basic elements of the Third Modification are:

1. Implementation of a new revenue source by the Authority applied to all solid waste generated within the Authority's jurisdiction (the "New Revenue");
2. An immediate reduction to the original lease obligation of four and one-half percent retroactive to January 1, 1995 (reflected in minimum lease payments above);
3. Future reductions to the lease obligation of an additional thirty and one-half percent retroactive to January 1, 1995 (for a total of thirty-five percent) upon enactment and successful implementation of the New Revenue;
4. Reinstatement of the thirty and one-half percent reduction upon repeal or removal of the New Revenue (prospectively from the date of repeal or removal);
5. Payment to the City of 100% of the net income from any sublease of the facility

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- by the Authority;
- 6. Payment to the City for 100% of the net proceeds from the sale and disposition of surplus equipment and spare parts from the facility;
- 7. Payment to the City of 100% of the amount collected from the New Revenue;
- 8. Annual payment to the City of the Authority's prior-year net income in excess of specified working capital limits; and
- 9. Deferral of any amounts not paid when due under the amended lease schedule at an annual interest rate of 4.5% until paid.

Pursuant to the Third Modification, and under authority granted by the Ohio Revised Code, the Authority adopted a rule in 1998, effective April 1, 1999, requiring that all waste generated within the Authority jurisdiction be delivered only to an Authority facility, unless a waiver has been granted to another facility or the waste is disposed at a facility outside the State of Ohio (Rule 1-98). The Board of Trustees authorized waivers for any landfill in Ohio provided the landfill executes a waiver agreement with the Authority and agrees to pay a waiver fee as proscribed in the agreement (the "Waiver Fee"). As of December 31, 1999, waiver agreements were in place for all private landfills that accepted SWACO waste during 1999.

Also in 1998, the Board of Trustees established a new fee, the Retired Facility Fee, which was assessed at Authority Facilities effective April 1, 1999. Under the Rule 1-98 waiver agreements, the Waiver Fee is set equal to the Retired facility fee (initially \$7.00 per ton). Taken together, the Retired Facility Fee and the Waiver Fee comprise the New Revenue called for in the Third Modification. The Authority recognized total revenue of \$5,149,331 from the New Revenue during 1999.

As the result of the Third Modification, the Authority recognized a gain of \$7,236,400 in 1998, representing the 4.5% reduction in the lease obligation under the modified lease. With implementation of the New Revenue in 1999, the Authority recognized a gain of \$27,725,490 relating to the additional 30.5% reduction in the lease liability for the period 1995-1999. The Authority will recognize future reductions in the lease obligation of \$34,893,423 if the New Revenue remains in place though the end of the lease term. The Authority has unpaid principal and interest payments relating to 1995 through 1999 of \$35,666,501 as of December 31, 1999, and unpaid principal and interest payments relating to 1995 through 1998 of \$52,624,252 as of December 31, 1998.

12. Service Agreements

On November 1, 1996, the Authority entered into a five-year yard waste compost facility service agreement, expiring on October 30, 2001. Under the agreement, the Authority pays a service fee for each ton of yard waste delivered to the facility. The agreement contains a guaranteed minimum annual payment to the facility operator based on the delivery of up to 50,000 tons per year. In addition, the Authority is required to pay for any yard waste in excess of 50,000 tons per year at a rate determined by the agreement. On November 1, 1998, the contract was modified to extend through March 31, 2002. The future minimum service payments under the amended agreement are as follows:

Solid Waste Authority of Central Ohio
Notes to Financial Statements
As of December 31, 1999 and 1998

Year Ending December 31, —

2000	\$ 1,017,500
2001	1,017,500
2002	254,375

Operating expenses under the service agreement approximated \$1,510,000 and \$1,692,000 in 1999 and 1998, respectively.

In April 1997, the Authority entered into a landfill service operations agreement with a contractor to oversee the Sanitary Landfill operations through the first two vertical phases of the landfill expansion. The contractor agrees to furnish all the labor, materials, tools and equipment for the landfill operations. The Authority paid \$4.99 and \$3.96 per ton of waste received by the landfill at December 31, 1999 and 1998, respectively. The rate per ton is subject to a CPI adjustment on May 1, 2000, and annually thereafter through expiration of the agreement. Operating expenses under this contract agreement were \$3,225,360 and \$2,475,247 in 1999 and 1998, respectively. Incentive payments earned by the contractor for improved performance related to the compaction rate of solid waste placed in the landfill were the primary reasons for the 1999 increase in the per ton rate and total expense.

13. Commitments and Contingencies

As the operator of solid waste disposal and transfer facilities, the Authority is subject to environmental regulation by federal, state and local governmental authorities. These authorities have the power to enforce compliance with environmental laws and regulations and to obtain injunctions or impose fines in the case of violations. In addition, the Authority's operation of landfills subjects it to certain operational, monitoring, site maintenance, closure and postclosure obligations. As the result of this extensive regulation, the Authority may become subject to various judicial and administrative proceedings involving federal, state or local regulatory agencies. If these agencies find that the Authority's operations or facilities are not in compliance with applicable environmental regulations or operating permits, they could seek to impose fines on the Authority or to revoke or deny renewal of an operating permit held by the Authority. Failure to correct the problems to the satisfaction of the authorities could lead to curtailed operations or closure of the landfill or transfer stations.

Certain federal and state environmental laws impose strict liability on the Authority for such matters as contamination of water supplies or other environmental damage associated with its operation of solid waste facilities. If such contamination or environmental damage were to occur, the resulting cost to the Authority of corrective measures and cleanup could adversely affect the Authority's financial condition.

On July 21, 1998, the Authority settled a lawsuit filed against the Authority, the State of Ohio and the Coshocton, Licking, Fairfield, Perry Joint Solid Waste District in federal court challenging the constitutionality of generation fees, including the Authority's five-dollar per ton generation fee enacted on November 1, 1994. The fee is used to support waste reduction and recycling programs and activities and is not currently being used for landfill or waste transfer operations. Under the terms of the dismissal agreement between the Authority and the plaintiff, the plaintiff released to the Authority \$2,851,808 in generation fees held in a court ordered escrow account. Additionally, the plaintiff dismissed its claims against the Authority, and the Authority dismissed its claims against the plaintiff.

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On March 18, 1998, a federal lawsuit against the Authority and the City of Columbus was resolved in favor of the Authority and the City. This suit was a toxic tort class action in which plaintiffs allege property damage to a large class of individuals residing in Franklin County. The plaintiff's claims were dismissed without prejudice.

Solid Waste Authority of Central Ohio
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As of December 31, 1999 and 1998

14. Risks and Uncertainties

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Authority purchases commercial insurance for claims in excess of deductibles. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. Self insurance claims and accruals were not significant for any period presented.

Solid Waste Authority of Central Ohio
Supplemental Schedule—Balance Sheet Information
As of December 31, 1999

Assets	Assets			
	Operating Fund		Program Fund	Total
	Continuing Operations	Discontinued Operations		
Current assets:				
Cash and cash equivalents	\$ 9,427,919	\$ 649,443	\$ 6,962,649	\$ 17,040,011
Accounts receivable (net)	1,719,666	186,078	134,036	2,039,780
Other assets	<u>107,026</u>	<u>-</u>	<u>26,914</u>	<u>133,940</u>
Total current assets	<u>11,254,611</u>	<u>835,521</u>	<u>7,123,599</u>	<u>19,213,731</u>
Noncurrent assets				
Cash held in escrow	66,607	-	-	66,607
Underground storage tank fund	55,000	-	-	55,000
Restricted cash	3,241,694	-	-	3,241,694
Closure/postclosure funds held by trustees:				
Investments	11,750,173	-	-	11,750,173
Sanitary landfill (net)	7,559,406	-	-	7,559,406
Transfer station assets (net)	3,907,008	-	-	3,907,008
Motor vehicles and other equipment (net)	2,172,583	-	108,341	2,280,924
Buildings and improvements (net)	1,137,247	-	35,380	1,172,627
Idle plant facilities	-	6,381,572	-	6,381,572
Other assets	<u>71,035</u>	<u>-</u>	<u>25,575</u>	<u>96,610</u>
Total noncurrent assets	<u>29,960,753</u>	<u>6,381,572</u>	<u>169,296</u>	<u>36,511,621</u>
Total assets	<u>\$ 41,215,364</u>	<u>\$ 7,217,093</u>	<u>\$ 7,292,895</u>	<u>\$ 55,725,352</u>

Solid Waste Authority of Central Ohio
Supplemental Schedule—Balance Sheet Information, Continued
As of December 31, 1999

	Liabilities			
	Operating Fund		Program Fund	Totals
	Continuing Operations	Discontinued Operations		
Current liabilities:				
Accounts payable	\$ 1,575,533	\$ -	\$ 444,067	\$ 2,019,600
Accrued wages and benefits	583,316	-	41,905	625,221
Accrued interest	81,870	4,647,930	-	4,729,800
Current maturities long-term payables	755,000	-	-	755,000
Capital lease obligation	-	42,672,754	-	42,672,754
Accrued plant closing expenses	-	336,686	-	336,686
Other payables	105,711	-	9,637	115,348
	<u>3,101,430</u>	<u>47,657,370</u>	<u>495,609</u>	<u>51,254,409</u>
Total current liabilities				
Noncurrent liabilities:				
Capital lease obligation	-	97,602,273	-	97,602,273
Closure and postclosure liability—				
Sanitary Landfill	10,313,504	-	-	10,313,504
Postclosure liability—				
Model Landfill	-	3,111,065	-	3,111,065
Bonds payable	18,180,000	-	-	18,180,000
Landfill purchase contract payable	115,000	-	-	115,000
Other payable	63,346	-	-	63,346
	<u>28,671,850</u>	<u>100,713,338</u>	<u>-</u>	<u>129,385,188</u>
Total noncurrent liabilities				
Total liabilities	<u>31,773,280</u>	<u>148,370,708</u>	<u>495,609</u>	<u>180,639,597</u>
Retained balance (deficit)	<u>9,442,084</u>	<u>(141,153,615)</u>	<u>6,797,286</u>	<u>(124,914,245)</u>
Total liabilities and retained balance (deficit)	<u>\$ 41,215,364</u>	<u>\$ 7,217,093</u>	<u>\$ 7,292,895</u>	<u>\$ 55,725,352</u>

Solid Waste Authority of Central Ohio
Supplemental Schedule—Revenues, Expenses and Changes in
Retained Balance (Deficit)
As of December 31, 1999

	<u>Operating Fund</u>			<u>Totals</u>
	<u>Continuing Operations</u>	<u>Discontinued Operations</u>	<u>Program Fund</u>	
Revenues:				
Tipping and disposal fees	\$ 11,238,156	\$ -	\$ -	\$ 11,238,156
Waste transfer fees	3,471,442	-	-	3,471,442
Retired facility and waiver fees	-	5,149,331	-	5,149,331
Generation fees	-	-	5,734,921	5,734,921
Other	<u>162,093</u>	<u>46,572</u>	<u>46,211</u>	<u>254,876</u>
Operating revenues	<u>14,871,691</u>	<u>5,195,903</u>	<u>5,781,132</u>	<u>25,848,726</u>
Expenses:				
Personal services	3,024,764	-	592,924	3,617,688
Contract, services and supplies	6,474,075	-	2,894,816	9,368,891
Depreciation and depletion	1,092,232	-	28,462	1,120,694
Landfill closing costs	707,400	-	-	707,400
Interfund transfers	(361,263)	-	361,263	-
Other	<u>1,415</u>	<u>-</u>	<u>3,127</u>	<u>4,542</u>
Operating expenses	<u>10,938,623</u>	<u>-</u>	<u>3,880,592</u>	<u>14,819,215</u>
Operating income	<u>3,933,068</u>	<u>5,195,903</u>	<u>1,900,540</u>	<u>11,029,511</u>
Nonoperating income (expenses) :				
Interfund transfers	(4,148,196)	4,148,196	-	-
Gain on forgiveness of debt	-	27,725,490	-	27,725,490
Grants	-	-	255,739	255,739
Interest expense	(972,687)	(5,890,305)	-	(6,862,992)
Interest income	<u>1,527,892</u>	<u>-</u>	<u>-</u>	<u>1,527,892</u>
Total nonoperating income (expense)	<u>(3,592,991)</u>	<u>25,983,381</u>	<u>255,739</u>	<u>22,646,129</u>
Net income	340,077	31,179,284	2,156,279	33,675,640
Retained balance (deficit), beginning of year	<u>9,102,007</u>	<u>(172,332,899)</u>	<u>4,641,007</u>	<u>(158,589,885)</u>
Retained balance (deficit), end of year	<u>\$ 9,442,084</u>	<u>\$ (141,153,615)</u>	<u>\$ 6,797,286</u>	<u>\$ (124,914,245)</u>

Report of Independent Accountants

Board of Trustees
Solid Waste Authority of Central Ohio

We have audited the financial statements of the Solid Waste Authority of Central Ohio (the Authority) as of and for the year ended December 31, 1999, and have issued our report thereon dated May 31, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Trustees, management, and the Auditor of State of Ohio. However, this report is a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP

May 31, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

SOLID WASTE AUTHORITY OF CENTRAL OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 26, 2000**