



ARLINGTON COUNTY, VIRGINIA

**Arlington Solid Waste Authority
Agenda Item
Meeting of December 10, 2011**

DATE: November 17, 2011

SUBJECT: Acceptance of Annual Financial Statements of the Alexandria/Arlington Waste Disposal Trust Fund

C. M. RECOMMENDATION:

Accept the attached Financial Statements and Independent Auditor's Report for the year ended June 30, 2011 for the Alexandria/Arlington Waste Disposal Trust Fund.

ISSUES: Whether to accept the Alexandria/Arlington Waste Disposal Trust Fund (the "Trust Fund") annual financial reports. No issues have been identified.

SUMMARY: The Financial Statements and Independent Auditor's Report for the year ended June 30, 2011 for the Trust Fund received an unqualified opinion (which is the best opinion that can be received) from the external auditors Clifton Gunderson LLP for FY 2011.

BACKGROUND: Annually at the completion and receipt of the external auditor's report, the Solid Waste Authority meets to receive and accept the annual financial reports.

DISCUSSION: The financial performance of the Trust Fund during FY 2011 is consistent with prior projections. Revenues from the waste-to-energy facility, including real estate taxes, disposal of contract waste and interest earnings, declined slightly from \$944,560 in FY 2010 to \$885,252 in FY 2011. This decline was due to anticipated reductions in contract waste, reduction in interest earnings, reduction in facility maintenance fee, and a reduction in property tax revenue. Expenses of the Trust Fund increased to \$5,291,328 in FY 2011 from \$3,483,449 in FY 2010. The increase in expenses was mainly due to an increase in tipping fees (\$1.3M) paid to outside haulers, previously anticipated tonnage shortfalls (\$0.2M), and increases in attorney fees for costs of energy credit litigation before the State Corporation Commission and costs of negotiating a new waste disposal agreement between the owner of the plant (Covanta) and Arlington and Alexandria (\$0.2M). FY 2011 ended with a balance of \$3,094,344 in the Trust Fund, which will assist Alexandria and Arlington in meeting future facility needs. With 18 months (July 1, 2011 through January 1, 2013) remaining in the current contract term, and the increased costs noted above, the Trust Fund will have a shortfall by the end of the term. The County Board has

County Manager:

BMD/mjs

County Attorney:

[Signature]

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Staff: Barbara A. Wiley; Treasurer, Solid Waste Authority

already set aside \$550,000 in fund balance (through closeout action in November) to meet Arlington's share of the end-of-term shortfall.

FISCAL IMPACT: None



ALEXANDRIA/ARLINGTON WASTE DISPOSAL TRUST FUND
(A Private - Purpose Trust Fund of Arlington County, Virginia)

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

Independent Auditor's Report

Trustees of the Alexandria/Arlington
Waste Disposal Trust Fund
Arlington County, Virginia

We have audited the accompanying statements of net assets of the Alexandria/Arlington Waste Disposal Trust Fund (a private purpose trust fund of Arlington County, Virginia) as of June 30, 2011 and 2010, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Alexandria/Arlington Waste Disposal Trust Fund's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 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.

As discussed in Note 1, the financial statements present only the Alexandria/Arlington Waste Disposal Trust Fund and do not purport to, and do not, present fairly the financial position of Arlington County, Virginia as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Alexandria/Arlington Waste Disposal Trust Fund as of June 30, 2011 and 2010, and the changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011 on our consideration of the Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Clifton Henderson LLP

Arlington, Virginia
October 28, 2011

ALEXANDRIA/ARLINGTON WASTE DISPOSAL TRUST FUND

(A Private-Purpose Trust Fund of Arlington County, Virginia)

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 3,166,929	\$ 7,613,659
Accounts Receivable	<u>612,858</u>	<u>595,754</u>
Total Assets	<u>\$ 3,779,787</u>	<u>\$ 8,209,413</u>
LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 685,443</u>	<u>\$ 708,993</u>
Net Assets	<u>\$ 3,094,344</u>	<u>\$ 7,500,420</u>

The accompanying notes are an integral part of the financial statements.

ALEXANDRIA/ARLINGTON WASTE DISPOSAL TRUST FUND

(A Private-Purpose Trust Fund of Arlington County, Virginia)

STATEMENTS OF CHANGES IN NET ASSETS
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ADDITIONS		
Shared revenue	\$ 872,209	\$ 916,095
Interest and other	13,043	28,465
Total Revenue	<u>885,252</u>	<u>944,560</u>
DEDUCTIONS		
Administrative expenditures	<u>5,291,328</u>	<u>3,483,449</u>
Changes in net assets	(4,406,076)	(2,538,889)
Net assets, beginning of year	<u>7,500,420</u>	<u>10,039,309</u>
Net assets, end of year	<u>\$ 3,094,344</u>	<u>\$ 7,500,420</u>

The accompanying notes are an integral part of the financial statements.

ALEXANDRIA/ARLINGTON WASTE DISPOSAL TRUST FUND
(A Private-Purpose Trust Fund of Arlington County, Virginia)

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(1) ORGANIZATION

The Alexandria/Arlington Waste Disposal Trust Fund ("the Trust") is a private-purpose trust fund of Arlington County, Virginia and, accordingly, the financial position and results of operations of the Trust are reflected in the comprehensive annual financial report of Arlington County, Virginia. The City of Alexandria, Virginia and Arlington County, Virginia (the "Jurisdictions") each have a 50% ownership interest in the Trust; however, because Arlington County performs the administrative functions for the Trust, it is reflected in the Arlington County reporting entity.

On December 1, 1984, an inter-local joint enterprise agreement was entered into between the Alexandria Sanitation Authority and the Arlington Solid Waste Authority (the "Authorities"). The Joint Enterprise, referred to as the Alexandria/Arlington Resource Recovery Corporation, was formed to design, construct, equip, test, and operate a solid waste disposal facility having an installed capacity of 975 tons per day of mixed municipal solid waste. The facility is located at 5301 Eisenhower Avenue, Alexandria, Virginia. The Alexandria Industrial Development Authority issued revenue bonds and the proceeds were lent to the Authorities to construct the facility.

On October 22, 1985, the Authorities sold the facility to a private company ("the Corporation") pursuant to a Conditional Sale and Security Agreement. The sale involved the transfer of construction-in-progress together with marketable securities and other assets. The Corporation assumed the obligation to provide funds adequate to pay the current liabilities and the outstanding revenue bonds payable as of October 22, 1985. This Agreement requires the Authorities to transfer full title to the facility only when principal and interest on the outstanding revenue bonds or any subsequent refinancing revenue bonds have been paid in full. The Agreement also entitles the Authorities to repossess the facility if revenue bond debt service payments are not made.

In connection with this transaction, the Corporation entered into a Facility Agreement dated as of October 1, 1986, obligating it to construct the facility and to provide waste disposal services to the City of Alexandria, Arlington County, and the Authorities for 20 years.

The Corporation's obligations under the Facility Agreement are guaranteed by its parent corporation (i) without limitation to amount until the facility is completed and passed its performance tests, and (ii) thereafter in an amount of \$20 million plus the cumulative net income for the facility (or the principal amount of the bonds, if less).

At the time of the sale, the Corporation also made a payment of \$1,000,000 to the Trust, which was to be used as a reserve for future expenditures. In July 1998, the Authorities advance refunded \$55,025,000 of the outstanding revenue bonds (Series 1998 A bonds) for the Corporation to take advantage of lower interest rates. In November 1998, the Arlington Industrial Development Authority issued \$48,550,000 in new retrofit revenue bonds (Series

1998 B bonds) to cover the cost of new pollution abatement equipment at the facility required by federal law. The proceeds of the Series 1998 B revenue bonds were loaned to the Authorities to construct the equipment.

The construction of the pollution abatement equipment commenced in November 1998 and was completed in November 2000, when the final unit passed acceptance tests. In January 2001, the Corporation began to make lease payments for the equipment to the Trustee Bank in an amount equal to the debt service payments on the bonds. The Series 1998 A bonds matured in January 2008, and the plant was sold to the Corporation for \$10.00 per bill of sale which was dated February 28, 2008.

On January 1, 2008, when the series 1998 A bonds matured, the Alexandria/Arlington Waste Disposal Fund (the "Trust Fund") received a contractual payment of \$10,691,000 per the terms of the service agreement. This contractual payment will allow the trust Fund to remain viable during the remaining contract term (until 2013) providing funds for tip fee differential payments and oversight of the facility during that time.

In fiscal year 2011 and 2010, the Trust has been used to pay consulting fees to an engineering firm for operation and maintenance audits of the facility and for oversight of any remaining retrofit issues. The Trust was also used to subsidize the difference between the contractual tipping fee paid by haulers under special contracts and the standard tipping fee.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Financial statements of the following entities are not included in the accompanying financial statements:

The Alexandria/Arlington Resource Recovery Corporation
Alexandria Sanitation Authority
Arlington Solid Waste Authority

The Trust does not provide funding nor exert significant control over these entities. The Alexandria Sanitation Authority is a separate and distinct entity, and accordingly, is not included as part of the financial reporting entity. The Arlington Solid Waste Authority is included in the financial reporting entity of Arlington County, Virginia.

Basis of Presentation

Arlington County, Virginia, of which the Trust is a private-purpose trust fund, maintains its accounting system in accordance with the specifications promulgated by the Auditor of Public Accounts of the Commonwealth of Virginia. The accompanying financial statements were prepared in conformity with generally accepted accounting principles for local governments.

Basis of Accounting

The Fund's financial statements have been prepared following the flow of economic resources measurement focus and the accrual basis of accounting. Under this method of accounting, revenues which include a portion of the annual property tax assessment by the City of Alexandria, interest and other investment income on invested funds, and a portion of special

revenues generated on contract waste are recorded at the time they are earned. Expenditures are recorded when the related liability is incurred.

Cash and Cash Equivalents

The Trust’s cash and cash equivalents are considered to be investment pools. The reported value of the pool is the same as the fair value of the pool shares.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities due at June 30, 2011 and 2010, consist of the following:

	<u>2011</u>	<u>2010</u>
Covanta of Alexandria/Arlington	\$655,048	\$654,789
HDR Engineering, Inc.	22,545	49,340
Williams Mullen	6,639	4,864
Arlington County	<u>1,211</u>	<u>-</u>
	<u>\$685,443</u>	<u>\$708,993</u>

Implementation of New GASB Pronouncement

In fiscal year 2011, the Authority implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of these new standards had no impact on the Authority’s fiscal year 2011 financial statements.

Accounts Receivable

Accounts receivable for the Trust consist of property tax payments made from the Corporation to the City of Alexandria, facility improvement surcharges, and supplemental waste revenue. As of June 30, 2011 and 2010 the Trust had the following accounts receivable:

	<u>2011</u>	<u>2010</u>
City of Alexandria	\$302,252	\$326,817
Covanta of Alexandria/Arlington	<u>310,606</u>	<u>268,937</u>
	<u>\$612,858</u>	<u>\$595,754</u>

Interest Rate Risk

As of June 30, 2011 and 2010, the Trust Fund had the following cash equivalents:

	<u>Investment Maturity</u>	
	<u>2011</u> <u>Fair Value</u>	<u>2010</u> <u>Fair Value</u>
State Treasurer's (Local Government Investment Pool)	\$3,166,929	\$7,613,659
Total	<u>\$3,166,929</u>	<u>\$7,613,659</u>

Investments are held by the City of Alexandria (the "City") under agreement with Arlington County. The funds are invested by the City in Local Government Investment Pool and are held in the Trust's name. The carrying value of the funds totaled \$3,166,929 and \$7,613,659 and the bank balance totaled \$3,568,316 and \$7,613,659 at June 30, 2011 and 2010 respectively. The entire investment balance has a maturity of less than one year.

(3) GUARANTEED TONNAGE

Each Authority, along with the City of Alexandria and Arlington County, respectively, made a guaranteed annual tonnage commitment to the Corporation. The Corporation will collect a tipping fee based on minimum tonnage commitments of 90,000 tons from the City of Alexandria and 135,000 tons from Arlington County. The tipping fee is an amount equal to net debt service, plus approved "pass through" costs, plus operating and maintenance costs, minus jurisdiction credits, divided by the guaranteed annual processing capacity. The jurisdiction had a shortfall of 7,787 tons in FY11 and 3,535 tons in FY10. The shortfall resulted in a payable from the Trust to the Corporation of \$270,086 in FY11 and was \$102,185 in FY10.

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards***

Trustees of the Alexandria/Arlington
Waste Disposal Trust Fund
Arlington County, Virginia

We have audited the financial statements of the Alexandria/Arlington Waste Disposal Trust Fund (a private purpose trust fund of Arlington County, Virginia) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications of Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alexandria/Arlington Waste Disposal Trust Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alexandria/Arlington Waste Disposal Trust Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Trustees of the Alexandria/Arlington Waste Disposal Trust Fund, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Arlington, Virginia
October 28, 2011