



ARLINGTON COUNTY, VIRGINIA

Arlington Solid Waste Authority Agenda Item Meeting of November 17, 2012

DATE: October 29, 2012

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, 2012 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, 2012 for the Trust fund received an unqualified opinion (which is the best opinion that can be received) from the external auditors CliftonLarsonAllen LLP for FY 2012.

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 2012 is consistent with prior projections. Revenues from the waste-to-energy facility, including contributions from Arlington County and the City of Alexandria, real estate taxes, disposal of contract waste and interest earnings increased from \$885,252 in FY 2011 to \$2,402,918 in FY 2012. This increase was due to \$1,805,466 in contributions received from Arlington County (\$1,083,280) and the City of Alexandria (\$772,187) to ensure sufficient balances to meet payment obligations, partially offset by \$287,800 in anticipated reductions in contract waste, interest earnings, facility maintenance fee and property tax revenue.

Expenses of the Trust Fund increased to \$5,325,874 in FY 2012 from \$5,291,328 in FY 2011. The increase in expenses was mainly due to an increase in tipping fees of \$4,533,321 paid to outside haulers, previously anticipated tonnage shortfalls of \$346,547 and \$446,006 paid to other

County Manager:

BMD/mjs

County Attorney:

[Signature]

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

vendors (mainly to consultants) overseeing the operations of the plant and legal fees associated with preparing the Waste Disposal and Service Agreement approved by the County Board on January 24, 2012.

FY 2012 ended with a balance of \$171,388 in the Trust Fund which will assist Alexandria and Arlington in meeting facility needs through the end of the contract term. With 6 months (July 1, 2012 through December 31, 2012) remaining in the current contract term, the Trust Fund is projected to have a positive balance at the end of the term due to defeasing the Series 1998B revenue bonds on July 30, 2012. At that time, the Trust Fund received proceeds of \$1,468,952 after deducting \$1,680 in legal fees and \$4,083 in administrative fees. The Trust Fund is projected to have a balance of \$702,915 on December 31, 2012 when the current agreement expires. The current agreement allocated the ownership of the funds between the jurisdictions as 60% Arlington and 40% Alexandria.

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, 2012 AND 2011
(WITH INDEPENDENT AUDITORS' REPORT THEREON)



CliftonLarsonAllen

CliftonLarsonAllen LLP
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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 in liquidation of the Alexandria/Arlington Waste Disposal Trust Fund (Trust Fund) (a private purpose trust fund of Arlington County, Virginia) as of and for the years ended June 30, 2012 and 2011, and the related statements of changes in net assets in liquidation for the years then ended. These financial statements are the responsibility of the Trust Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Trust Fund and do not purport to, and do not, present fairly the financial position of Arlington County, Virginia as of June 30, 2012 and 2011, 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 in liquidation of the Trust Fund as of June 30, 2012 and 2011, and the changes in net assets in liquidation 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 31, 2012 on our consideration of the County'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 audit.

The accompanying financial statements have been prepared assuming that the Trust Fund will continue as a going concern. As discussed in Note 4 to the financial statements, the Board of Directors of the Trust Fund voted to terminate the Trust, which indicates that the Trust is not a going concern. Therefore, the Trust Fund's policy is to prepare these financial statements on the liquidation basis of accounting. The assets and liabilities of the Trust Fund will be transferred to a new Inter-local agreement between Alexandria and Arlington on December 31, 2012.

CliftonLarsonAllen LLP

Arlington, Virginia
October 31, 2012

ALEXANDRIA/ARLINGTON WASTE DISPOSAL TRUST FUND

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

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 812,230	\$ 3,166,929
Accounts Receivable	<u>505,342</u>	<u>612,858</u>
Total Assets	<u>\$ 1,317,572</u>	<u>\$ 3,779,787</u>
LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 1,146,184</u>	<u>\$ 685,443</u>
Net Assets	<u>\$ 171,388</u>	<u>\$ 3,094,344</u>

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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Shared revenue	\$ 594,658	\$ 872,209
Interest and other	2,794	13,043
Contribution	1,805,466	-
Total Revenue	<u>2,402,918</u>	<u>885,252</u>
EXPENSES		
Administrative expenditures	<u>5,325,874</u>	<u>5,291,328</u>
Changes in net assets	(2,922,956)	(4,406,076)
Net assets, beginning of year	<u>3,094,344</u>	<u>7,500,420</u>
Net assets, end of year	<u>\$ 171,388</u>	<u>\$ 3,094,344</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

(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 2012 and 2011, 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. The Trust will terminate on December 31, 2012 and the jurisdictions will enter into a new inter-local agreement for a new trust. The new Trust will pay for all these services except subsidize for the difference between the 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, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Covanta of Alexandria/Arlington	\$1,118,879	\$655,048
HDR Engineering, Inc.	22,837	22,545
McKennon Shelton	426	6,639
NVRC	<u>4,042</u>	<u>1,211</u>
	<u>\$1,146,184</u>	<u>\$685,443</u>

Implementation of New GASB Pronouncement

In December 2009, the Governmental Accounting Standard Board ("GASB") issued GASB Statement No. 57 ("GASB 57") *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other post-employment benefit (OPEB) plans. The requirements of the new Statement became effective for fiscal periods after June 15, 2011. The County adopted GASB 57 during the year ended June 30, 2012. The implementation of this new standard had no impact on the County's fiscal year 2012 financial statements.

In June 2011, GASB issued GASB 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Statement sets for criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of the new Statement became effective for fiscal periods after June 15, 2011. The County adopted GASB 64 during the year ended June 30, 2012. The implementation of this new standard had no impact on the County's fiscal year 2012 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, 2012 and 2011 the Trust had the following accounts receivable:

	<u>2012</u>	<u>2011</u>
City of Alexandria	\$181,238	\$302,252
Covanta of Alexandria/Arlington	<u>324,104</u>	<u>310,606</u>
	<u>\$505,342</u>	<u>\$612,858</u>

Interest Rate Risk

As of June 30, 2012 and 2011, the Trust Fund had the following cash equivalents:

	<u>Investment Maturity</u>	
	2012	2011
	<u>Fair Value</u>	<u>Fair Value</u>
State Treasurer's (Local Government Investment Pool)	\$812,230	\$3,166,929
Total	<u>\$812,230</u>	<u>\$3,166,929</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 \$812,230 and \$3,166,929 and the bank balance totaled \$1,147,189 and \$3,568,316 at June 30, 2012 and 2011 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 9,611 tons in FY12 and 7,787 tons in FY11. The shortfall resulted in a payable from the Trust to the Corporation of \$346,547 in FY12 and was \$270,086 in FY11.

(4) SUBSEQUENT EVENTS

On July 30, 2012, the Alexandria/Arlington Waste Disposal Fund (the "Trust Fund") defeased 1998 B Bonds to take advantage of lowering the tipping fees. The Trust received a payment of \$1,468,952 after it paid \$1,680 Trustee legal fees and \$4,083 administration fees.

The Trust fund will terminate on December 31, 2012 and a new Inter-local agreement between Alexandria and Arlington will be created for supervision and oversight of the Waste To Energy facility during the merchant era (2013 to 2025). The old operation agreement between the jurisdictions and Covanta will terminate and the parties entered into a new Waste Disposal and service agreement dated as of January 24, 2012.



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**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, 2012, and have issued our report thereon dated October 31, 2012. 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.

Internal Control Over Financial Reporting

Management of the Alexandria/Arlington Waste Disposal Trust Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Arlington County, Virginia's (the County) 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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County'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 and correct 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 was not designed to identify all deficiencies in internal control over financial reporting 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 the 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*.

We noted certain matters that we reported to management of the County in a separate letter dated October 31, 2012.

This report is intended solely for the information and use of management, Trustees of the Alexandria/Arlington Waste Disposal Trust Fund, 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.

CliftonLarsonAllen LLP

Arlington, Virginia
October 31, 2012