2004 Financial Report

DSWA

December 3, 2004

The Honorable Chair and Members of the Board of Directors
of the Delaware Solid Waste Authority

The Comprehensive Annual Financial Report (CAFR) of the Delaware Solid Waste Authority (DSWA) for the fiscal year ended June 30, 2004, is hereby submitted. This report has been prepared in conformity with the Reporting and Accounting Standards established by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, and with the Accounting and Reporting Standards for Enterprise Funds set out by the Government Finance Officer's Association of the United States and Canada. The DSWA's management is responsible for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures necessary to enable the reader to gain an understanding of the DSWA's financial activities.

This report is organized into three sections. The Introductory Section includes this letter of transmittal and other related items. The Financial Section includes the report of the Independent Auditors, Management's Discussion and Analysis, the General Purpose Financial Statements, and Notes to the financial statements. The Statistical Section contains current and historical data in DSWA's operations and solid waste tonnage.

The Reporting Entity

The DSWA is a body politic and corporate created in 1975 by an act of the Delaware Legislature and is a public instrumentality and political subdivision of the State of Delaware (the State). The DSWA is responsible for implementing solid waste disposal, recycling and resources recovery systems, facilities, and services. Revenues generated by DSWA operations, primarily disposal fees, provide for the support of the DSWA and its operations on a self-sustaining basis. The State provides no revenues to the DSWA. In carrying out its mission, the DSWA utilizes private industry in the construction and operation of solid waste disposal facilities and the operation of various segments of its recycling programs. Users of DSWA facilities are eligible to participate in a Differential Disposal Fee Program that offers special pricing and rebates to anyone that contracts to bring all acceptable solid waste generated and collected in the State to a DSWA facility. The DSWA is authorized to issue bonds to finance its activities.

The DSWA is governed by a seven-member Board of Directors appointed by the Governor with the advice and consent of the Senate. The Chairman of the Board of Directors is designated by, and serves at the pleasure of, the Governor.

Budgetary and Accounting Controls

The DSWA adopts an annual operating budget as a financial plan for the year. Actual operating results are monitored on a monthly basis and compared to the adopted budget so that variances can be identified and analyzed. Budgetary compliance is reported to the Board of Directors on a monthly basis. The DSWA's accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded as liabilities are incurred, without regard to receipt or payment of cash. Current controls provide reasonable assurance that the DSWA's assets are properly recorded and protected and that the financial data may be used with confidence in the preparation of historical reports and projections. Accounting controls are maintained by segregation of duties and physical and data security systems in all areas of record keeping, billing, cash receipts, disbursements, and purchasing authority. These control systems are reviewed regularly by staff.

Cash Management

The DSWA's Operations Cash and Cash Reserves are managed by Wilmington Trust Company under an Investment Management Agreement that includes the State of Delaware, Delaware State Housing Authority, and the Delaware Transportation Trust. The majority of funds are invested in United States Government-Backed Fixed Income Securities, AA or better Corporate Securities, and U.S. Government Sub-Agency Securities. A Repurchase Agreement Account is maintained to provide daily liquidity for DSWA's Disbursement Account. Current safekeeping and delivery arrangements are felt by management to provide appropriate security for the DSWA's investments.

Risk Management

The DSWA maintains a comprehensive package of property and liability insurance relevant to its operations. For Workers' Compensation Insurance, the DSWA participates in the State of Delaware's plan. Since, by law, the DSWA can sue and be sued, it purchases Coverage B for Worker's Compensation on the open market. A safety program that includes safety regulations, first-aid training, and driver safety classes is actively administered and enforced to minimize exposures and manage incidents.

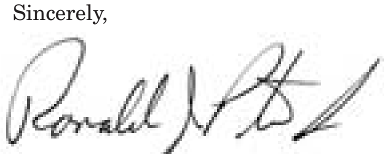
Financial Condition and Outlook

The DSWA maintains a strong financial position as evidenced by cash reserves and the absence of bonded indebtedness for the last two fiscal years. The State of Delaware has enjoyed the most consistent economic growth in the region. Its population has grown at an average rate of 1.4% annually since 2000. Construction of new housing and other development, especially in Kent and Sussex counties has kept pace with the population growth. These combined events have increased the solid waste stream managed by the DSWA. It is anticipated that this growth rate will continue into the future.

Acknowledgments

At this time I would like to acknowledge the contributions of the staff of the Financial Services Group and our Independent Certified Public Accountants in the preparation of the comprehensive annual financial report. I also want to acknowledge the DSWA's Board of Directors and Senior Management for their support and commitment to make the Delaware Solid Waste Authority a leader in the solid waste industry.

Sincerely,



Ronald J. Peters, Sr.

Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Delaware Solid Waste Authority
Dover, Delaware

We have audited the accompanying statements of net assets of Delaware Solid Waste Authority as of June 30, 2004 and 2003, and the related statements of revenues and expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority'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. Those standards require that we plan and perform the audits 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delaware Solid Waste Authority as of June 30, 2004 and 2003, 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 of America.

Elko & Associates Ltd.
August 19, 2004

Management's Discussion and Analysis

The Management of the Delaware Solid Waste Authority (DSWA) presents the readers of our financial statements the following overview and analysis of the financial activities of the DSWA for the fiscal years ended June 30, 2004 and 2003. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal (beginning on page 2) and the accompanying financial statements (beginning on page 9).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the DSWA's basic financial statements. Since the DSWA is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) Enterprise Fund Financial Statements and 2) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

Enterprise Fund Financial Statements are designed to provide readers with a broad overview of the DSWA's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on the DSWA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the DSWA is improving or deteriorating.

The Statement of Revenues and Expenses and Changes in Net Assets presents information showing how the DSWA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The basic Enterprise Fund Financial Statements can be found on pages 9 through 11 of this report.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 12 through 19 of this report.

The statement of cash flows presents the change in the DSWA's cash and cash equivalents during the period being reported. This information can assist the user of the report in determining how the DSWA financed its activities and how it met its cash requirements.

Financial Highlights

- The DSWA's assets exceeded its liabilities (net assets) by approximately $100.5 million and $91.3 million at the close of fiscal years 2004 and 2003, respectively. This represents an increase of $9.3 million (10.2%) in 2004 over the previous year.
- Total operating revenue increased by approximately $4.1 million, or 8.6%, over the previous year. Net user fees reported in this item are net of the Differential Disposal Fee Program rebates of approximately $10.5 million in 2004 and $9.3 million in 2003 (see Note 10). Other income includes $1.2 million from the sale of Marketable Recyclables in 2004 compared to $1.1 million in 2003.
- Total operating expenses for 2004 increased by $3.1 million, or 9.3%, over the previous year. The largest increases were recorded in Salaries and Related Costs and Contractual Services. Two expense categories did decline. They were Landfill Closure and Post-Closure Care Costs and Depreciation Expense.
- Excess operating revenues over expenses increased from the prior year by $1.0 million, or 7.2%.
- Non-operating revenues and expenses combined for a net $0.6 million reduction in excess revenues over expenses.
- Recognition of an impairment loss to the carrying value of assets located at the Delaware Recycling Center. The loss is attributable to the disposal of equipment and demolition of obsolete and unused buildings.

Summary of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of DSWA's financial position. The DSWA's net assets increased each of the last two years, $9,258,743 during fiscal year 2004 and $11,719,846 during fiscal year 2003. A condensed summary of the DSWA's net assets for the two years being reported is presented below:

	Net Assets	
	2004	2003
Current Assets	$ 77,762,931	$ 59,193,771
Capital Assets	82,284,983	87,542,746
Total Assets	**160,047,914**	**146,736,517**
Current Liabilities	16,396,297	14,273,966
Long-Term Obligations	43,098,921	41,168,598
Total Liabilities	**59,495,218**	**55,442,564**
Net Assets:		
Invested in Capital Assets	82,284,983	87,542,746
Unrestricted	18,267,713	3,751,207
Total Net Assets	**$100,552,696**	**$ 91,293,953**

Net assets invested in capital assets represents the DSWA's investment in capital assets (e.g., land, land improvements, buildings, and equipment). The DSWA uses these capital assets to provide services to its customers and, consequently, these assets are not available for future spending. The remaining balance of net assets (approximately 52.4% at June 30, 2004) is considered unrestricted. The DSWA is, however, bound by Resolution of its Board of Directors to maintain certain Reserve Funds, Liability Reserve, and Operations Reserve, established in fiscal year 2004 to cover any liabilities it may face and provide additional funding to support its operations. These two reserve funds were established at $15.0 million and $25.0 million, respectively. Any remaining unrestricted balance can and has been used by the DSWA to fund Capital Improvement Projects during fiscal year 2004 in lieu of issuing debt. It should be noted here that the DSWA defeased its remaining outstanding bond issue in fiscal year 2003 and has remained debt free through the close of fiscal year 2004.

Summary of Revenues and Expenses and Changes in Net Assets

Summary of revenues and expenses and changes in net assets for the years ended June 30, 2004 and 2003, is presented below:

	Changes in Net Assets	
	2004	2003
Operating Revenues		
User Fees: Solid Waste	$ 49,437,052	$ 43,918,043
User Fees: Sludge	305,280	1,871,780
Marketing Income Recyclables	1,229,492	1,142,439
L/F Gas Marketing Income	151,089	92,005
Other Income	132,284	170,281
Total Operating Revenues	**51,255,197**	**47,194,548**
Operating Expenses		
Salaries and Related Costs	5,682,691	5,113,418
Contractual Services	17,598,697	13,999,631
Depreciation	7,154,362	7,324,295
Landfill Closure	2,641,361	4,179,177
Other Expenses	3,260,999	2,630,440
Total Operating Expenses	**36,338,110**	**33,246,961**
Excess Operating Revenues Over Expenses	14,917,087	13,947,587
Non-Operating Revenues (Expenses)	(312,384)	1,222,146
Special Items—(Losses)	(6,017,873)	(3,449,887)
Cummulative Effect of Accounting Change	671,913	–
Increase in Net Assets	9,258,743	11,719,846
Net Assets—Beginning of Year	91,293,953	79,574,107
Net Assets—End of Year	$100,552,696	$ 91,293,953

The DSWA's net assets increased as a result of operations during fiscal year 2004 by $9,258,743 while in fiscal year 2003, the DSWA's net assets increased by $11,719,846. This reduction from the prior fiscal year is due in a large part to two factors: 1) the impairment loss at the Delaware Recycling Center (see Note 12) and 2) the application of Governmental Accounting Standards Board Statement No. 31, which requires investments to be stated at fair value. The effect of the change was to decrease net investment income by $1,797,590 (see Note 3).

Review of Operations

Landfill Operations. During the fiscal year 2004, the DSWA's three operating landfills managed the disposal of 1,059,702 tons of waste compared to 941,295 tons during the previous fiscal year. Of the total waste received, 58,185 tons of construction and demolition waste were recycled into an alternate cover material, 2,113 tons of tires were recycled, and 4,666 tons of yard waste were recycled as a mulch or cover material. The user fee for solid waste remained $58.50/ton for the eleventh consecutive year.

Transfer Station. The Pinetree Corners Transfer Station continued to serve Southern New Castle County while expansion construction continued. When complete, the facility will have a new larger building for handling commercial customers and a renovated (existing) building for residential and small-load customers.

Collection Stations. The DSWA's five collection stations located in Kent and Sussex counties continued to provide disposal services to residents for bagged household waste at the rate of $1/bag. A total of 58,811 customers disposed 99,154 bags of household waste during fiscal year 2004.

Recycling. During the fiscal year, the DSWA's Recycle Delaware Igloo Program collected 39,241,720 lbs. of recyclables. The Oil Filter Program collected 316 tons of filters from over 450 locations statewide. The Electronic Goods Program collected 1,011 tons of electronic goods for recycling. The Intermediate Processing Junk Mail Program collected 2,006 tons of junk mail for recycling into various paper products. The Intermediate Processing Facility marketed 28,139 tons of materials for recycling. The DSWA's Residential Curbside Collection Program continued to grow by expanding service to all of New Castle County. By the close of the fiscal year, the number of participating households was 1,522.

Plans for the Future. DSWA's plans for the future include the construction and operation of two transfer stations in Sussex County. One located off Route 5 in Long Neck that will provide service to the resort area and Eastern Sussex County and one in the City of Milford that will service Northern Sussex County and Southern Kent County. Both transfer stations are scheduled to be operational in the fall of 2005. The DSWA's management is currently evaluating the financing of these projects through the use of cash reserves or the issuance of revenue bonds. Future plans also call for expanding the capacity of the Cherry Island Landfill. This project is scheduled to be financed by the issuance of revenue bonds in the amount of $60.0 million plus issuance costs. It is anticipated the bonds will be issued in the late summer or late fall of 2005. Expansion of DSWA's Recycling Program includes offering Statewide Curbside Collection after January 1, 2005, and expanding the capacity of the Intermediate Processing Facility by adding a second sorting line.

This financial report is designed to provide its readers with an overview of the DSWA's finances and to show DSWA's accountability for safeguarding the funds it receives and disburses in the course of conducting its business. If you have any questions concerning this report or need additional financial information, please contact:

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Delaware Solid Waste Authority
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Dover, DE 19903-0455
Telephone: (302) 739-5361

Respectfully submitted,

Ronald J. Peters, Sr.
Chief Financial Officer

2004 Financial Report—Statements of net Assets

June 30, 2004 and 2003

ASSETS

	2004	2003
CURRENT ASSETS		
Cash and cash equivalents—Note 2	$ 703,830	$ 628,870
Investments—Note 3	70,742,171	53,479,787
Accounts receivable		
(less reserve for doubtful accounts of		
$110,000 and $110,000)	5,863,101	4,760,803
Prepayments and miscellaneous receivables	453,829	324,311
Total Current Assets	77,762,931	59,193,771
CAPITAL ASSETS—Note 5		
Land	19,981,612	19,981,612
Land improvements	115,022,238	114,313,365
Buildings	25,265,061	36,377,125
Equipment and furniture	7,373,382	7,516,761
Vehicles	1,456,486	1,096,430
Total	169,098,779	179,285,293
Less: Accumulated depreciation	105,122,879	103,667,254
	63,975,900	75,618,039
Construction in progress—Note 5	18,309,083	11,924,707
Total Capital assets	82,284,983	87,542,746
TOTAL ASSETS	$160,047,914	$146,736,517

LIABILITIES AND NET ASSETS

	2004	2003
CURRENT LIABILITIES		
Accounts payable	$ 3,571,656	$ 2,684,361
Contracts payable, including retainage	1,109,602	1,195,980
Refundable security deposits	49,529	53,829
Accrual for compensated absences	458,976	412,114
Other accrued expenses	290,056	230,488
Accrual for landfill closure and		
post-closure care costs—Note 6	465,000	350,000
Contract rebate payable—Note 10	10,451,478	9,347,194
Total Current Liabilities	16,396,297	14,273,966
LONG-TERM OBLIGATIONS		
Deferred revenue—Note 8	886,011	881,935
Accrual for landfill closure and		
post-closure care costs—Note 6	42,212,910	40,286,663
Total Long-Term Obligations	43,098,921	41,168,598
Total Liabilities	59,495,218	55,442,564
NET ASSETS		
Invested in capital assets	82,284,983	87,542,746
Unrestricted	18,267,713	3,751,207
TOTAL NET ASSETS	100,552,696	91,293,953
TOTAL LIABILITIES AND NET ASSETS	$160,047,914	$146,736,517

The accompanying notes are an integral pat of these statements

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS

OPERATING REVENUE	2004	2003
Net user fees: Solid waste	$ 49,742,332	$45,789,823
Other income	1,512,865	1,404,725
Total Operating Revenue	51,255,197	47,194,548
OPERATING EXPENSES		
Salaries and related costs	5,682,691	5,113,418
Professional services	1,140,399	983,109
Travel	76,867	66,414
Supplies and materials	1,067,720	932,667
Utilities	976,013	648,250
Contractual services	17,598,697	13,999,631
Landfill closure and post-closure care costs	2,641,361	4,179,177
Depreciation expense	7,154,362	7,324,295
Total Operating Expenses	36,338,110	33,246,961
EXCESS OPERATING REVENUES OVER EXPENSES	14,917,087	13,947,587
NON-OPERATING REVENUES (EXPENSES)		
Net investment income (loss)	(179,357)	2,055,632
Bond interest expense	–	(637,752)
Amortization of bond issuance costs	–	(50,864)
Other non-operating expenses	(133,027)	(144,870)
Total Non-Operating Revenue (Expenses)	(312,384)	1,222,146
EXCESS REVENUES OVER EXPENSES BEFORE SPECIAL ITEMS	14,604,703	15,169,733
SPECIAL ITEMS		
Impairment loss	6,017,873	1,400,116
Loss on defeasance of 1995 bond issue—Note 7	–	2,049,771
Total Special Items	6,017,873	3,449,887
EXCESS REVENUES OVER EXPENSES AFTER SPECIAL ITEMS BEFORE CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE	8,586,830	11,719,846
CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE—Note 1(H) and Note 12	671,913	–
EXCESS REVENUES OVER EXPENSES	9,258,743	11,719,846
NET ASSETS—BEGINNING OF YEAR	91,293,953	79,574,107
NET ASSETS—END OF YEAR	$100,552,696	$91,293,953

The accompanying notes are an integral pat of these statements

STATEMENTS OF CASH FLOWS

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$49,614,577	$46,683,478
Cash paid to suppliers and employees	(26,235,158)	(22,606,743)
Other operating revenues	1,645,892	1,404,987
Net Cash Provided by Operating Activities	25,025,311	25,481,722
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	1,485,620	2,045,633
Proceeds from maturities on investments	17,751,435	23,108,184
Purchase of investment securities	(36,178,816)	(9,921,558)
Net Cash Provided by (Used in) Investing Activities	(16,941,761)	15,232,259
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Redemption and defeasance of revenue bonds	–	(27,398,773)
Interest paid	–	(1,712,730)
Cash payments for capital assets	(8,426,590)	(11,469,698)
Proceeds from sale of equipment	418,000	-
Net Cash Used in Capital and Related Financing Activities	(8,008,590)	(40,581,201)
NET INCREASE IN CASH	74,960	132,780
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR	628,870	496,090
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 703,830	$ 628,870

RECONCILIATION OF EXCESS OPERATING REVENUES OVER EXPENSES
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2004	2003
EXCESS OPERATING REVENUES OVER EXPENSES	$14,917,087	$13,947,587
Adjustments to reconcile excess operating revenues over expenses to net cash provided by operating activities:		
Depreciation	7,154,362	7,324,295
Loss on disposition of capital assets	147,541	-
Increase in accounts receivable	(1,102,298)	(421,062)
(Increase) decrease in prepayments and miscellaneous receivables	(129,517)	205,126
Increase in accounts payable	887,295	293,338
(Increase) decrease in refundable security deposits	(4,300)	2,094
Increase in accrual for compensated absences	46,862	5,578
Increase in other accrued expenses	59,568	25,275
Increase in accrual for landfill closure and post-closure care costs	2,041,247	3,675,395
Increase in contract rebate payable	1,104,284	1,104,148
Decrease in contracts payable	(86,378)	(683,663)
Increase in deferred revenue	4,076	3,351
Other non-operating net cash flow that does not result from investing or capital and related financing activities	(14,518)	260
Total Adjustments	10,108,224	11,534,135
Net Cash Provided by Operating Activities	$25,025,311	$25,481,722

The accompanying notes are an integral pat of these statements

NOTE 1—Summary of Significant Accounting Policies

(A) Reporting Entity

The Delaware Solid Waste Authority (the "Authority") is a body politic and corporate constituting a public instrumentality of the State of Delaware established and organized in 1975 under Delaware Code, Title 7, Chapter 64.

The Authority has been designated by the State of Delaware, under this act, as the sole entity, governmental or private, with the responsibility for planning and implementing solid waste, sewage sludge, and resource recovery programs and facilities throughout Delaware in accordance with the Statewide plan for solid waste management.

The Authority is governed by a Board of Directors consisting of seven directors who are appointed by the Governor with the advice and consent of the Senate.

Currently, the Authority operates solid waste management facilities in each of Delaware's three counties and it has consolidated the financing and operation of its solid waste disposal facilities into a unitary Statewide system.

(B) Basis of Presentation

The Authority operates as an enterprise activity, and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recognized when incurred. The Authority follows all applicable pronouncements of the Governmental Accounting Standards Board (GASB) and those of the Financial Accounting Standards Board (FASB) issued before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to residents and customers for waste collection and disposal and the revenues from the sale of processed waste materials. Operating expenses include the cost of waste collection, disposal and processing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

(C) Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand and demand deposits.

For purposes of determining cash equivalents, the Authority has defined its policy concerning the treatment of short-term investments to include investments with a maturity of three months or less when purchased, as cash equivalents if management does not plan to reinvest the proceeds. Short-term investments that management intends to roll over into similar investments are considered part of the investment portfolio and are classified as investments.

(D) Capital Assets

Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $2,500 and an estimated useful life in excess of one year. Such assets are valued at their historical costs.

The costs of normal maintenance and repairs that do not add value to the asset's or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is computed over the estimated useful lives of the assets using the straight-line method and is charged to operating expenses. The following useful lives are used to compute depreciation:

Land improvements	3–20 years
Buildings	5–40 years
Equipment and furniture	3–20 years
Vehicles	3–5 years

Depreciation of landfill cell development and site costs is recorded based on remaining units of capacity. Total depreciation expense for the years ended June 30, 2004 and 2003, was $7,154,362 and $7,324,295, respectively.

(E) Other Significant Accounting Policies

Accounts receivable are shown net of an allowance for the estimated portion that is not expected to be collected. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

NOTE 1—Summary of Significant Accounting Policies, continued

(F) Compensated Absences

Vacation and sick leave pay are recorded as an expense when earned by the Authority's employees. As of June 30, 2004 and 2003, accrued vacation and sick leave aggregated $458,976 and $412,114, respectively, and is based on the following criteria.

Employees' unused vacation leave is accumulated to a maximum of two years earned. Upon retirement or termination, employees are paid for all unused accumulated vacation leave at their final rate of pay. The accrued liability is based upon the full amount of accumulated vacation leave.

Employees' unused accumulated sick leave can be used up to the total amount accumulated for future sickness. In the event of termination due to lack of work, employees hired after January 1, 1992, will be paid at the rate of one day for every two days accumulated to the maximum of 90 days at their final rate of pay. In the event of death, employees hired after January 1, 1992, will be paid at the rate of one day for each day accumulated to the maximum of 90 days at their final rate of pay. Employees hired before January 1, 1992, will be paid for every day accumulated with no limitation, at their final rate of pay. Upon retirement, payment shall be made at the rate of one day per each day of unused sick leave accumulated to the maximum of 90 days for all employees despite their hire date. Upon voluntary termination, the employee will forfeit all accumulated sick leave. The Authority has consistently accrued sick leave for only those employees for whom retirement is impending. The accrued liability is based upon the sick leave that would be paid upon impending retirement only.

(G) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

(H) Impairment of Long-Lived Assets

The Authority has elected to early adopt Statement No. 42 of the Government Accounting Standards Board (GASB), "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs. Statement No. 42 is effective for fiscal years beginning after December 15, 2004.

In 2003, the Authority reported an impairment loss under Statement No. 144 of the Financial Accounting Standards Board (FASB), "Accounting for the Impairment or Disposal of Long-Lived Assets." As prescribed by this statement, long-lived assets which are to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The excess of carrying amount over the fair value less cost to sell is reported as an impairment loss.

The effect of adopting GASB No. 42 and FASB No. 144 is the recognition of an impairment loss of $6,017,873 and $1,400,116 for the years ended June 30, 2004 and 2003, respectively (see Note 12).

(I) Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets less accumulated depreciation less any outstanding debt related to the acquisition, construction, or improvement of those assets.

(J) Closure and Post-Closure Obligations

The Authority records all estimated closure costs for existing cells as a liability. Upon final closure of the landfill site, the Authority is then responsible, under current Federal regulations, for maintaining the closed site for the following thirty years.

(K) Reclassifications

Certain of the amounts previously reported in the financial statements for the prior year have been reclassified to conform with the current year classifications.

NOTE 2—Cash and Cash Equivalents

At June 30, 2004, the Authority's cash on hand and in banks is categorized as follows:

Petty cash	$ 4,395
Deposits insured by the FDIC and FSLIC or collateralized by various U.S. Treasury and other government agency securities held by the Depository in the Authority's name	699,435
Cash on hand and in bank	$703,830

The Authority's deposits were collateralized by $840,842 FNMA PL 251761 CUSIP #31371GTS9, maturing June 15, 2013. This security was priced at 105.634204 with a market value of $888,217 at June 30, 2004.

The Authority deposits its funds with financial institutions that comply with the requirements of Delaware Statutes and have been designated as a qualified public depository by the State Treasurer. Under the Statute, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral to the State Treasurer with a fair value equal to a percentage of the average daily balance of all government deposits in excess of federal deposit insurance.

NOTE 3—Investments

The Authority's investments are in U.S. Treasury Obligations, U.S. Government Agency Bonds and Notes, Wilmington U.S. Government Mutual Funds, and Corporate Bonds and Notes. The Authority has adopted Statement No. 31 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This standard requires investments to be carried at fair value. In 2003, the investments were carried at amortized cost, which was not materially different from fair value.

GASB No. 31 has been applied retroactively to investments of prior years. The effect of the change in 2004 was to decrease net investment income by $1,797,590. The adjustment of $671,916 included in 2004 revenues over expenses is the cumulative effect of applying the new method retroactively.

The following pro forma amounts show the effect of the retroactive application of the change from reporting investments at amortized cost to fair value.

	Actual	Pro Forma
2004		
Excess revenues over expenses before special items	$14,604,700	$14,604,700
Excess revenues over expenses	9,258,743	8,586,827
2003		
Excess revenues over expenses before special items	$15,169,733	$15,221,925
Excess revenues over expenses	11,719,846	11,772,038

The net change in the fair value of the Authority's investments as of June 30, 2004, resulted in an unrealized loss of $1,797,590 and is included in net investment income. The calculation of the net change in the fair value of investments is independent of the calculation of realized gains and losses. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost of the investments sold. Realized gains and losses of the current period include unrealized amounts from prior periods. Realized gains for the years ended June 30, 2004 and 2003, were $15,286 and $430,709, respectively.

It is the Authority's policy generally to hold investments until maturity.

The Authority's investments are categorized as follows to give an indication of the level of risk assumed by the Authority: Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Authority's name. The Authority has no investments that would be included in Category 3.

NOTE 3—Investments, continued

The Authority's investments are summarized as follows:

	2004		2003	
	Fair Value/ Carrying Value	Cost	Fair Value/ Carrying Value	Cost
U.S. Treasury Obligations (Category 1)	$ 9,051,408	$ 9,122,305	$ 7,498,668	$ 7,356,311
U.S. Government Agency Bonds and Notes (Category 1)	24,139,859	24,263,914	21,645,099	21,240,088
Wilmington U.S. Government Mutual Funds (Category 2)	12,181,885	12,181,841	11,296,700	11,296,700
Corporate Bonds and Notes (Category 2)	25,369,019	26,299,785	13,711,236	13,586,688
Total Investments	$70,742,171	$71,867,845	$54,151,703	$53,479,787

NOTE 4—Accounts Receivable/Rebate Payable—City of Wilmington

On October 23, 1979, the Authority and the City of Wilmington entered into an Agreement for the processing of sewage sludge. In order to process solid waste and sewage sludge, the Authority issued revenue bonds to construct the Delaware Reclamation Plant (DRP). The City paid the Authority for the operational costs of the Sewage Sludge Processing Module (SSPM), plus the debt service attributed to that module.

Because of actions taken by the Delaware Department of Natural Resources and Environmental Control (DNREC), normal operations of the Sewage Sludge Processing Module were suspended as of May 10, 1993.

The Authority and the City of Wilmington negotiated a Restated Sludge Agreement that was approved by resolution of City Council on September 18, 1997, which terminated the original agreement between the parties. The terms of the Restated Agreement require the City to continue to pay the debt service on the SSPM. As of June 30, 2003, the City fulfilled its debt service obligation on the SSPM.

For a ten-year period beyond 2003, the City will not be charged service fees for disposal of its processed sewage sludge as well as stabilized sludge that is utilized by the Delaware Solid Waste Authority for landfill operations. On July 1, 1997, the City began reimbursing the Delaware Solid Waste Authority for the cost of Capital Improvements to the Sewage Sludge Processing Module paid to the Raytheon Service Company. Payments at the rate of $25,439 per month will continue until the cost of $2,340,478 has been reimbursed. The balance is expected to be paid in full by February 1, 2005.

NOTE 5—Capital Assets

A summary of changes in capital assets for the year ended June 30, 2004, is as follows:

	June 30, 2003	Increases	Decreases	June 30, 2004
Capital assets not being depreciated:				
Construction in progress	$ 11,924,707	$ 6,384,376	$ –	$ 18,309,083
Land	19,981,612	–	–	19,981,612
Total capital assets not being depreciated	31,906,319	6,384,376	–	38,290,695
Depreciable capital assets:				
Land and land improvements	114,313,365	708,873	–	115,022,238
Less: accumulated depreciation	(81,366,156)	(5,396,918)	–	(86,763,074)
Buildings	36,377,125	99,069	(11,211,133)	25,265,061
Less: accumulated depreciation	(16,497,944)	(889,169)	5,418,714	(11,968,399)
Equipment and furniture	7,516,761	379,249	(522,628)	7,373,382
Less: accumulated depreciation	(5,080,351)	(637,077)	96,007	(5,621,421)
Vehicles	1,096,430	557,035	(196,979)	1,456,486
Less: accumulated depreciation	(722,803)	(231,199)	184,017	(769,985)
Depreciable assets, net of accumulated depreciation	55,636,427	(5,410,137)	(6,232,002)	43,994,288
Capital assets, net	$ 87,542,746	$ 974,239	$ (6,232,002)	$ 82,284,983

NOTE 5—Capital Assets, continued

The status of the Authority's construction in progress at June 30, 2004, is as follows:

	Expected Completion Date	Costs to Date	
Northern Solid Waste Facility			
Site Improvements	2005	$5,571,320	
Site Improvements—Pine Tree	December 2004	6,111,845	
Landfill Design	2006	4,525,860	
Preliminary Costs—Land Acquisition	Ongoing	10,580	
Site Improvements—DRC Phase I	September 2004	121,065	
Site Improvement—EGF	Ongoing	518	
Total			$16,341,188
Central Solid Waste Facility			
Area A/B Capping	December 2005	244,298	
Landfill Gas Utilization	June 2005	13,688	
Preliminary Costs—Land Acquisition		17,467	
Dover Transfer Station	June 2006	53	
Landfill Gas System	Ongoing	151,151	
Total			426,657
Southern Solid Waste Facility			
Landfill Gas Utilization	June 2005	13,688	
Landfill Gas System	Ongoing	149,738	
Cell 1 Capping	Ongoing	23,369	
Cell 2 Capping	Ongoing	56,605	
Resort Transfer Station	July 2005	685,907	
Milford Transfer Station	July 2005	508,888	
Maintenance Building	August 2004	74,094	
Leachate Recirculation	Ongoing	28,949	
Total			1,541,238
Total Construction In Progress			$18,309,083

NOTE 6—Landfill Closure and Post-Closure Care Costs

On October 9, 1991, the U.S. Environmental Protection Agency issued its rule "Solid Waste Disposal Facility Criteria." This rule establishes closure requirements, location restrictions, operating criteria, design criteria, groundwater monitoring and corrective action requirements, post-closure care requirements and financial assurance requirements for Municipal Solid Waste Landfills. State governments are primarily responsible for establishing state legislation and related permit programs to implement and enforce the EPA rule and have been given flexibility to tailor requirements to accommodate the wide variety of local conditions that exist.

In addition to operating expenses related to current activities of the landfills, an expense provision and related liability are being recognized based on the estimated future closure costs that will be incurred near or at the date of closure and the estimated post-closure care costs at each site for thirty years after closure. The Authority reports a portion of these closure and post-closure care costs as an operating expense each year based on landfill capacity used during the year. Accrued landfill closure and post-closure care costs, $42,677,910 as of June 30, 2004, and $40,636,663 as of June 30, 2003, represent the cumulative amount reported based on the estimated percentage of landfill capacity used as of those dates. The Authority will recognize the remaining estimated cost of closure and post-closure care of $71,229,934 as the remaining estimated capacity is filled. The estimated total current cost of the landfill closure and post-closure care of $113,907,844 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of June 30, 2004. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or in landfill laws and regulations. The following is a summary of selected information related to the Authority's landfills as of June 30, 2004:

Landfill	Estimated Capacity Used	Cumulative Remaining Life	Accrued Costs	Costs to be Recognized in the Future
Cherry Island	86.58%	2 years	$21,220,526	$ 3,488,044
Central	26.62%	58 years	5,094,094	38,443,280
Southern	32.21%	28 years	11,893,290	29,298,610
Pigeon Point	100.00%	Closed 1985	4,470,000	–
Total			$42,677,910	$71,229,934

NOTE 6—Landfill Closure and Post-Closure Care Costs, continued

The current available remaining capacity of Phase III, IV, and V of the Cherry Island Landfill is 1,207,250 tons. This will provide approximately two years of remaining life to the landfill.

The Authority has contracted to design a system to provide a minimum additional 12,000,000 tons of capacity in Phase III, IV, and V. This will extend the cumulative remaining life of the Cherry Island Landfill an additional twenty (20) years.

In addition, in August 2000, the Authority acquired access to additional adjacent land from the U.S. Army Corps of Engineers. This, known as Phase VI, VII, and VIII, is projected to add an additional 13,500,000 tons of capacity to the Cherry Island Landfill extending the cumulative remaining life by another twenty-four (24) years. The Authority will have access to this property only after the U.S. Army Corps of Engineers has finished using the site for their dredge spoil disposal activity. It is currently estimated that the Authority will have access to this property in 2010.

A summary of the current year expenditures and accruals is as follows:

	Total	Cherry Island	Central	Southern	Pigeon Point
Balance of accrual, July 1, 2003	$ 40,636,663	$19,918,039	$4,900,290	$11,443,334	$4,375,000
Current year expenditures:					
Closure costs	–	–	–	–	–
Post-closure costs	(600,114)	–	–	–	(600,114)
Net accrual	40,036,549	19,918,039	4,900,290	11,443,334	3,774,886
Balance of accrual, June 30, 2004	42,677,910	21,220,526	5,094,094	11,893,290	4,470,000
Net closure and post-closure care costs recognized in current year	$ 2,641,361	$ 1,302,487	$ 193,804	$ 449,956	$ 695,114

Included in the computation of Landfill Closure and Post-Closure Care Costs as of June 30, 2004, are closure costs for: (1) Pine Tree Corner Transfer Station of $7,850; (2) Cheswold Collection Station of $2,250; (3) Ellendale, Long Neck, Omar, and Bridgeville Collection Stations, each totaling $1,600 and (4) Pigeon Point Transfer Station of $12,100.

NOTE 7—Defeased Bonds

Pursuant to the Governmental Accounting Standards Board Statement No. 7, “Advance Refundings Resulting in Defeasance of Debt,” the Authority does not report defeased/refunded bond funds on its statement of net assets.

As of June 30, 2004, the Authority had two outstanding refunded bond issues which were originally reported on its statement of net assets. The payment of principal and interest on these bond issues is the responsibility of the escrow agent, the Wilmington Trust Company. The following is the schedule of refunded bonds outstanding as of June 30, 2004:

Refunded Issue	Date of Issue	Amount Outstanding	Refunding Issue
Landfill Refunding Revenue Bonds Series of 1987	3/1/87	$ 930,000	Solid Waste System Refunding Revenue Bonds Series B of 1990
Solid Waste System Revenue Bond Series of 1995	11/15/95	$20,015,000	Cash Defeasance

On March 10, 2003, the Authority entered into an escrow agreement with Wilmington Trust Company (the “Escrow Agent”) in order to affect an in-substance defeasance of the Solid Waste System Refunding Revenue Bonds, Series of 1995. Required funds were deposited into an irrevocable trust to be used exclusively to service the future debt requirements of the bonds. Cash reserves and the debt service reserve fund were sufficient to fund these required deposits and, therefore, a new bond issue was deemed unnecessary. The transaction costs of this cash defeasance plus the required funds deposited into the escrow account over the book value of the debt at the time of the defeasance amount to $2,049,771.

NOTE 8—Deferred Revenues

On February 1, 1990, the Authority entered into an agreement with the Delmarva Power Company which allowed Delmarva Power Company to dispose at the Authority's designated landfill areas up to 72,000 wet tons of fly ash product per year until a total of 1,440,000 wet tons is reached over a period of not less than twenty years and not more than thirty years. In exchange for this right, the Authority received 37.73 acres of land adjacent to the Cherry Island landfill. This land was independently appraised at $864,250 and has been capitalized and included in the Authority's property, plant, and equipment at that value. Deferred revenue for the future dumping fees of this fly ash was recorded on the books and records of the Authority equal to the capitalized value of the property received in exchange. The Authority recognizes income each year based on the wet tons actually received, to the maximum of 72,000 tons per year, compared to the total amount of wet tons to be received over the agreed period of time. Delmarva Power Company has not dumped any fly ash at the Authority's designated landfill since the fiscal year ended June 30, 1993. Accordingly, the Authority has not recognized revenue from the dumping of fly ash since the fiscal year ended June 30, 1993. The balance of deferred fly ash income at June 30, 2004 and 2003, was $788,260.

The Authority also sells tickets to residents of Kent and Sussex counties. These tickets are used by the residents when they drop off bags of trash at any one of the collection stations in Sussex County or the Cheswold Transfer Station in Kent County. Income from the sale of tickets is recognized by the Authority as the bags of trash are collected. The balance of deferred income from the sale of these tickets at June 30, 2004 and 2003, was $97,751 and $93,675, respectively.

NOTE 9—Pension Plan

Plan Description: All full-time or regular part-time employees of the Authority are required to participate in the Delaware Public Employees' Retirement System (the "System") administered by the Delaware Board of Pension Trustees. The System is a cost-sharing, multiple-employer, defined benefit public employee retirement system that provides retirement, death, and disability benefits to plan members and beneficiaries. Pension benefits of the System are established by Delaware Statutes, Chapter 55, Title 29, and may be amended by the Delaware Legislature.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Office of Pensions, McArdle Building, 860 Silver Lake Blvd., Suite 1, Dover, Delaware 19904-2402, by visiting the web site at www.delawarepensions.com, or by calling 1-800-722-7300.

Funding Policy: Plan members are required to contribute 3% of their annual salary which exceeds $6,000 per calendar year. The Authority is required to contribute at an actuarially determined rate, which was 11.56% and 9.47% of annual covered payroll for the twelve months ended June 30, 2004 and 2003, respectively. The contribution requirements for plan members and participating governments are established by State statute. The Authority's contributions to the System for the years ended June 30, 2004, 2003, and 2002 were $462,955, $351,690, and $306,233, respectively, and were equal to the required contributions for each year.

NOTE 10—Contract Rebate Payable

Since May of 1999, the Authority has offered a Differential Disposal Fee Program to users of Authority facilities. The current program offers rebates of $10.00/ton and $13.50/ton for all qualifying tons and a $40.00/ton "at the gate" fee for all dry waste delivered to designated facilities. For the program year ending June 30, 2004, three hundred twenty-three (323) participants received rebates totaling $10,451,111.

The current program is in its final year and will end on June 30, 2005. The Authority estimates that rebates for the final year will be $10,400,000. The Authority has already adopted a new Differential Disposal Fee Program that is scheduled to begin on July 1, 2005, and run through June 30, 2010.

NOTE 11—Commitments and Contingencies

Arbitrage: The Authority paid the United States Treasury $678,769 on June 30, 2002, as a rebate of cumulative positive arbitrage it had earned on the proceeds of the 1995 bonds. As of June 30, 2004, there is a negative cumulative rebate in the amount of $364,475. If negative arbitrage continues, the Authority will be able to recoup the $678,769 upon final arbitrage rebate analysis to be done after the issue is fully redeemed on July 1, 2006.

Litigation: A claim has been assessed against the Authority in the sum of $2,579,227. No litigation has been filed or threatened. The claim arises out of certain work performed, and various subcontractors, on behalf of the Authority and is based in part on various delays due to adverse weather. General counsel is of the opinion that a significant portion of the claim is unfounded and without any legal basis. It is also anticipated that the Authority will respond to the claim by denying it and making a counteroffer which is significantly less than the claim and, if the matter cannot be resolved amicably, that the Authority will contest the claim vigorously. General counsel has stated that it is difficult to evaluate the likelihood of the

NOTE 11—Commitments and Contingencies

outcome and estimate the amount of potential loss, although they do believe it is very unlikely that the claim will be upheld at the amount stated. The Authority is holding approximately $751,000 in retainage related to the claim, but has assessed a counterclaim against the company in the amount of $466,000.

The Authority makes significant estimates in determining the amount of Unreserved Net Assets needed to be designated for the protection of the Authority, the Authority's assets, employees, and bondholders in the event of litigation because of the nature of the Authority's operations. Although the Authority has endeavored to designate an adequate amount for this self-insurance, it is not determinable whether or not these amounts would be sufficient in the event of such litigation.

Grants: Amounts received from grantor agencies are subject to audit and adjustment by those agencies, principally the Federal Government and the State of Delaware. Any disallowed claims, including amounts already received, might constitute a liability of the Authority for the return of those funds. In the opinion of management, all grant expenditures were in compliance with the terms of the grant agreements and applicable Federal and State laws and regulations.

Contract Commitments: The Authority has several uncompleted construction contracts for landfill development and improvements to the solid waste system. The construction is being funded primarily from existing renewal and replacement funds. At June 30, 2004, the uncompleted contracts are summarized as follows:

	Contract Amount	Approved Payments	Retainage Payable	Remaining Contract Commitment
Northern Solid Waste Facility	$23,010,309	$14,698,043	$445,146	$ 8,312,266
Central Solid Waste Facility	884,284	483,449	–	400,835
Southern Solid Waste Facility	13,217,905	11,458,414	488,463	1,759,491
	$37,112,498	$26,639,906	$933,609	$10,472,592

In addition to the construction contract commitments, the Authority also had outstanding purchase commitments for various goods and services totaling approximately $492,000 at June 30, 2004.

Environmental Liabilities: The Authority, in cooperation with other state and local regulatory agencies, maintains an extensive monitoring program for potential environmental contaminants at each of its sites and facilities. These monitoring programs have not identified any contaminants caused by landfill leachate or other operations of the Authority. In the event that any environmental contaminants are identified, the Authority may be financially responsible for the assessment and cleanup costs, as well as potential fines imposed by governmental regulatory agencies.

NOTE 12—Impaired Long-Lived Assets

In 2004, various buildings were demolished and or abandoned. The net carrying value of the buildings plus demolition costs equaled $6,017,873 and have been reflected as an impairment loss. [See Note 1(H).]

In 2003, machinery and equipment utilized in the operations of the Energy Generating Facility (EGF) was deemed no longer in use and was later sold in 2004. The net carrying value of the EGF machinery and equipment was $1,800,116. The estimated fair value of these assets less the estimated cost of disposal was $400,000. [See Note 1(H).]