

Lancaster County Solid Waste Management Authority

Years Ended December 31, 2016 and 2015



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# **Lancaster County Solid Waste Management Authority**

Lancaster, Pennsylvania

Years Ended December 31, 2016 and 2015

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# Lancaster County Solid Waste Management Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2016 and 2015

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of **Lancaster County Solid Waste Management Authority**, which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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LANCASTER OFFICE: 1705 Oregon Pike, Lancaster, PA 17601 • 717-569-2900 • Fax 717-569-0141  
CAPITAL REGION OFFICE: 5000 Ritter Road, Suite 104, Mechanicsburg, PA 17055 • 717-697-2900 • Fax 717-697-2002

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Lancaster County Solid Waste Management Authority** as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other postemployment benefits information on pages 3 through 9 and 47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

March 6, 2017  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*  
TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

Management of the **Lancaster County Solid Waste Management Authority** (the Authority), issues the following narrative and analysis to assist the reader in understanding financial activities of the Authority for the fiscal year ended December 31, 2016.

### **Overview of the Financial Statements**

Although the Authority is a governmental entity, the Authority engages primarily in business-type activities. The Authority's basic financial statements consist of two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### **Enterprise Fund Financial Statements**

The enterprise fund statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

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

The statements of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. The basic enterprise fund financial statements can be found on pages 10 through 14 of this report.

Notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15 through 46 of this report.

### **SUMMARY**

In 2016, the Authority continued to focus on the effectiveness of its infrastructure which included necessary investments in capital assets. The Authority measures its effectiveness in terms of capacity, cost efficiency, sustainable practices, and environmental compliance. Capacity utilization increased in 2016 as a result of higher waste volumes. Despite higher utilization, operating costs remained stable and facilities, equipment and staff performance was exceptional. Site availability was >99.95%, safety and compliance was strictly maintained and productivity metrics improved across the board as the infrastructure absorbed record tonnages virtually free of any unplanned costs. We believe this performance reflects favorably on our infrastructure's current effectiveness.

Planned capital investments were executed at all sites in the form of necessary site maintenance and equipment replacements. The Susquehanna Resource Management Complex (SRMC) began specific improvements to its ash processing system and a new cooling tower. Both improvements will provide economic values through environmental program eligibility and improved operational reliability (respectively) once completed.

Asset transactions included the sale of lands adjacent to the WTE facility to Perdue Agri-business, LLC as part of an agreement to provide steam to Perdue's soybean processing facility now under construction on this land. In addition, the Authority agreed to lease a portion of property adjacent to the Frey Farm Landfill to Inashco, LLC who will construct and operate an ash processing facility that recovers valuable metals from the ash currently delivered to this site. Lastly, the Authority undertook engineering analysis and professional planning in support of the Frey Farm Landfill Vertical Expansion project which remains on schedule.

The Authority maintains outstanding debt associated with the SRMC asset purchase in December 2013.

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

### SUMMARY (Continued)

The financial performance exceeded budgeted expectations for the year and remained consistent with prior year income(s) despite lower grant proceeds and the on-going trend of lower energy revenue values. Overall operating revenue totaled \$78,938,006 for the year. The balance sheet remains strong with an overall net position of \$159,974,434. All capital expenditures were funded by operating cash. The Authority received a total of 960,190 tons of waste, including recycling material. This represented a 1.7% increase over 2015.

### FINANCIAL REVIEW

The Authority's balance sheet remains strong as assets exceed liabilities by \$159,974,434 (net position). Overall assets decreased by \$1,007,147 which reflects asset depreciation outpacing replacements. Higher asset depreciation also offset the increase in current assets that resulted from the operating surplus and a gain on the sale of land. Total debt (current and long-term) was reduced by \$3,925,000 to a principal balance of \$125,465,000 at December 31, 2016.

A majority of the Authority's net position is comprised of two major components: 1) investment in capital assets (net of associated debt) and 2) investments in board designated investment reserve funds which represent \$34,885,725 of the unrestricted net position total. These investment reserves consist of funds that have been set aside for future capital and construction project funding along with business interruptions and opportunities.

Capital expenditure investment was \$7,354,626 while asset sales provided \$2,679,620 in proceeds. All Authority capital expenditures were made from operating cash.

	Net Position	
	2016	2015
Current and Other Assets	85,382,201	78,901,825
Capital Assets	<u>229,400,626</u>	<u>236,888,149</u>
<b>TOTAL ASSETS</b>	<b>314,782,827</b>	<b>315,789,974</b>
Long-Term Liabilities Outstanding	130,097,524	134,445,662
Landfill Closure and Post-Closure Costs (Current and Long-Term)	10,770,769	11,136,502
Other Liabilities	<u>13,940,100</u>	<u>12,874,118</u>
<b>TOTAL LIABILITIES</b>	<b>154,808,393</b>	<b>158,456,282</b>
Net Investment in Capital Assets	107,075,644	110,070,608
Restricted	9,208,880	8,518,921
Unrestricted	<u>43,689,910</u>	<u>38,744,163</u>
<b>TOTAL NET POSITION</b>	<b>159,974,434</b>	<b>157,333,692</b>

The Authority's net position increased by \$2,640,742 during the year. Operating income declined to \$5,076,264 compared with 2015's operating income of \$7,057,251. Net non-operating expenses of \$2,435,522 were recorded in 2016.

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

### FINANCIAL REVIEW (Continued)

Total operating revenues of \$78,938,006 decreased by \$1,753,887 (2.2%) from 2015. Tipping fees and energy sales accounted for 97% of operating revenue. Tipping fee revenue increased by \$2,215,160 (3.7%) compared to 2015 on higher contract refuse and C&D tonnages. Energy revenue was down \$3,662,575 (19.9%) from 2015 while other operating revenues, consisting mostly of revenue received on the sale of recovered metal from processed waste, was down \$306,472 (11.2%) reflecting the trend of depressed global market prices through the first 3 quarters of the year.

Total operating and support expenses, excluding depreciation, were \$60,641,037; down .5% from 2015. Included in operating expenses are provisions for landfill related closure and post-closure care costs recognized under GASB accounting guidelines. The total costs recognized under these guidelines was a credit of \$234,865 which resulted from revised closure cost estimates being offset by an increase in the actual percentage of area filled at the Frey Farm Landfill (FFLF) during 2016.

Depreciation expense of \$13,220,705 was up 4.1% from 2015 reflecting additional assets capitalized and placed into service in 2016.

General and administrative costs were up 7.7% relative to 2015 and include customer volume rebates.

Net non-operating expenses were \$2,435,522 consisting of interest expense on debt less investment earnings, net gains on asset sales, and other non-operating revenue sources. Investment earnings were \$673,671 as compared to 2015 earnings of \$601,975. This increase is resulting from higher principal balances as a result of surplus operating funds being invested and investment proceeds being reinvested. Overall, yields continue to reflect the low interest rate environment which continued through 2016.

A \$1,058,174 net gain from asset disposals reflects a significant land sale transaction in 2016 as compared to a normalized disposal year in 2015 of \$241,282. Other non-operating revenues, comprised of Pennsylvania State Grant proceeds associated with the completion of projects at SRMC, declined from 2015 by \$1,837,350 to \$177,236 reflecting the completion of these projects.

	Change in Net Position	
	2016	2015
Revenues:		
Tipping Fees	61,760,388	59,545,228
Energy	14,738,431	18,401,006
Transportation	1,549,966	1,540,205
Other Revenues	<u>889,221</u>	<u>1,205,454</u>
<b>TOTAL OPERATING REVENUE</b>	<b>78,938,006</b>	<b>80,691,893</b>
Expenses:		
Operating Expenses, Excluding Depreciation	48,778,813	49,927,279
Support Expenses, Excluding Depreciation	11,862,224	11,011,216
Depreciation Expense	<u>13,220,705</u>	<u>12,696,147</u>
<b>TOTAL OPERATING and SUPPORT EXPENSES</b>	<b>73,861,742</b>	<b>73,634,642</b>

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

### FINANCIAL REVIEW (Continued)

	Change in Net Position (Continued)	
	2016	2015
Investment Earnings	673,671	601,975
Interest Expense	(4,769,778)	(5,139,214)
Gain on Asset Disposals	1,058,174	241,282
Other Non-Operating Revenue	<u>602,411</u>	<u>2,385,293</u>
<b>TOTAL NON-OPERATING REVENUE (EXPENSE)</b>	<b><u>(2,435,522)</u></b>	<b><u>(1,910,664)</u></b>
<b>INCREASE IN NET POSITION</b>	<b>2,640,742</b>	<b>5,146,587</b>
Net Position - January 1	<u>157,333,692</u>	<u>152,187,105</u>
<b>NET POSITION - DECEMBER 31</b>	<b><u>159,974,434</u></b>	<b><u>157,333,692</u></b>

### CAPITAL ASSETS, DEBT ADMINISTRATION, and LONG-TERM OBLIGATIONS

#### Capital Assets

The Authority invested \$7,354,626 in capital assets through a combination of projects at SRMC, WTE, and Frey Farm Landfill as well as operating equipment purchases and other improvements in 2016. Planned upgrades to SRMC's waste-to-energy facility and general improvements to the site's infrastructure accounted for 33% of the total capital expenditures (CAPEX). Continued planning and design work for the Frey Farm Vertical Expansion accounted for 7%, and ash process modifications at the WTE Facility accounted for 4%. Purchases of transportation and other operating equipment represented 32% of CAPEX, the majority of which represented the acquisition of new transfer trailers as part of the Authority's scheduled asset replacement cycle. Property acquisitions accounted for 4% of CAPEX which included the acquisition of a property described in the Consent Agreement at the Frey Farm Landfill. The balance of CAPEX was for operations equipment and general site improvements.

Proceeds from property and equipment sales were \$2,679,620. Total depreciation expense for 2016 was \$13,220,705. A comparison of capital assets as of December 31, 2016 and December 31, 2015, is shown below.

	Capital Assets	
	2016	2015
Susquehanna Resource Management Complex (SRMC)	114,184,600	118,814,271
Waste-to-Energy Facility	37,367,219	42,024,254
Landfill Facility	27,976,776	28,549,554
Transfer Station Complex	17,689,721	18,423,606
Support Facilities	7,243,510	7,574,493
Other Real Estate	6,848,420	6,504,269
Equipment	8,089,570	7,822,092
Administrative Building and Equipment	1,242,734	1,355,765
Construction in Progress	<u>8,758,076</u>	<u>5,819,845</u>
<b>TOTAL CAPITAL ASSETS</b>	<b><u>229,400,626</u></b>	<b><u>236,888,149</u></b>

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

### **CAPITAL ASSETS, DEBT ADMINISTRATION, and LONG-TERM OBLIGATIONS (Continued)**

#### **Capital Assets (Continued)**

Additional information on the Authority's capital assets can be found in Notes 6 and 7 of the financial statements.

#### **Debt Administration and Long-Term Obligations**

At December 31, 2016, the Authority had \$125,465,000 of outstanding bond principal liability associated with the acquisition of the SRMC assets on December 23, 2013. Principal payments of \$3,925,000 were made in 2016 (see Note 12). The Authority also has obligations to close the Frey Farm Landfill and perform post-closure monitoring for the Creswell and Frey Farm Landfills as well as post-closure monitoring associated with the SRMC ash landfills. The Authority has recorded total related liabilities in the amount of \$10,770,769 for these activities.

### **REVIEW of 2016 BUSINESS**

#### **Facilities and Operations**

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

In 2016, the System received 960,190 tons of waste which includes refuse, construction and demolition (C&D), residual and recyclable material. This represented a 1.7% increase over 2015. The TSC received 339,815 tons of waste which was then transferred to the WTE facility, FFLF, SRMC or several privately owned and operated recycling facilities. The WTE received 401,322 tons of waste either delivered directly to the facility or transferred in from the TSC or SRMC while the FFLF received 244,503 tons of waste either delivered directly to the landfill or transferred in from the TSC, WTE or SRMC. There were 312,862 tons of waste received at SRMC. C&D waste received at SRMC was transferred to the FFLF. All sites met the Authority's expectation for availability and overall operating performance.

The WTE facility processed 400,191 tons of waste generating 226.1 M kWh of electricity. A 25-year contract sale agreement with Metropolitan Edison Company (Met-Ed) expired in February. Under this agreement, LCSWMA realized an average rate price of \$.056 /kWh. Upon the expiration of this agreement, electricity generated at WTE was sold to the PJM (Pennsylvania, Jersey, Maryland) grid at an average rate of \$.033 / kWh. With the MetEd contract expiration the Authority became owners of the energy capacity product and therefore established agreements with PJM. In exchange for an obligation to provide electricity to the PJM grid during periods of need, LCSWMA's WTE facility recognized \$1,216,661 in capacity commitment revenue. WTE's renewable energy credits totaled \$1,573,674. The SRMC facility processed 295,594 tons of waste generating 120 M kWh of electricity, 91% of which was sold under contract to the Commonwealth of Pennsylvania's Department of General Services (DGS) at a rate of \$.044/kWh. Electric not purchased by DGS was sold at market prices to the PJM grid. In addition to the direct sale of electric, the SRMC facility also contracted to provide capacity to PJM generating \$369,509 of revenue, and renewable energy credits (REC's) generating another \$660,119.

#### **Operating Revenue**

The Authority's integrated waste disposal and processing system provided sufficient capacity to take delivery of 960,190 tons of waste material which provides tipping revenue for the system. About 73% of the total waste volume delivered to the Authority was processed at one of the two waste-to-energy facilities generating electricity to be sold. The revenue from the sale of this electric, along with other energy related revenue sources

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

### REVIEW of 2016 BUSINESS (Continued)

#### Operating Revenue (Continued)

such as REC's and capacity, were sold mostly under contract through January 2016, and through a combination of contract and open market thereafter. The combined revenue from tipping fees earned for the disposal of waste tons and energy related products account for approximately 97% of 2016's operating revenue.

The Authority earned \$61,760,388 in tipping revenue in 2016 (78% of the total operating revenue). Refuse and C&D (referred to as municipal solid waste - MSW) comprised 83% of the tipping revenue and 77% of the total tons received. Residual waste streams accounted for 16% of overall system tipping revenue and 21% of the total tons received. Residual waste is received through contracts with the waste generator, waste broker, or waste transporter. Inbound recyclable material received from private haulers accounts for 2% of the total waste tons.

Energy related revenue earned was \$14,738,431 in 2016 (19% of all operating revenue). The majority of energy related revenue, about 74%, is derived from the production and sale of electricity at both the WTE and SRMC plants. Capacity revenues increased to 11% of the energy category totaling \$1,586,167 in 2016. Other energy revenue sources include the sale of REC's from generating electricity. These credits are contracted to pay a fixed price for a maximum amount of megawatts produced monthly. The current contract runs through May 31, 2018, and includes annual increases to the price paid for megawatts produced. In 2016, REC revenue totaled \$2,233,793, (about 15% of the total energy revenue). At FFLF, recovery and sale of methane gas converted to electricity as well as electricity generated from wind powered turbines earned \$96,269 in revenue.

Transportation revenues of \$1,549,966 reflects fees charged to haulers for waste that is delivered to the Authority's TSC (which is then transferred to either the FFLF or WTE sites). Other revenue primarily consists of the sale of metal recovered from the waste stream. Metal prices trended even lower in 2016 and despite equivalent tonnages, revenues eroded 29% to \$805,420. The Authority operates a CNG refilling station which generated \$50k in revenues in 2016.

### BUSINESS OUTLOOK

The Authority experienced higher delivered tonnages in 2016, which is consistent with an improving economy that has benefited the waste sector as a whole. An improving economy has not correlated to a recovery in energy values, although long term outlooks are now trending higher. The Authority's tipping revenue increased for the 3<sup>rd</sup> consecutive year with a 3.7% 2016 increase over 2015. Average tipping revenue/ton continues to improve through the growth of higher fee refuse volumes. Higher tipping revenue helped offset a 20% drop in energy revenues. Noting the inverse relationship in our recent energy and tipping revenue categories, revenue diversification continues to be a priority for the Authority. 2016 revenue diversification progressed in the form of two new revenue stream agreements, Steam Sales and Ash Deliveries, expected to begin in 2017 and 2018, respectively (see Note 19 referencing Perdue & Inashco). Other opportunities associated with these relationships and independent of them continue to be pursued.

While the short term outlook for energy value, recovered metal value, and interest income remains depressed, LCSWMA's business fundamentals remain solid. Lancaster County refuse & C&D volumes have rebounded strongly, SRMC's improved site reliability is attracting new customers and better system utilizations have contributed to cost efficiencies. In fact, the Authority's financial decisions regarding investments in its infrastructure, equipment, and technologies continue to reflect favorably its operational consistency and its reliability in serving the needs of its customers and the larger community.

# Lancaster County Solid Waste Management Authority

## MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

### **BUSINESS OUTLOOK (Continued)**

A high percentage of LCSWMA's core business can be relied upon for revenue and expense planning purposes. Approximately 80% of SRMC's operating revenue is covered under existing, long term waste disposal agreements for refuse delivery and an electric purchase contract with the Commonwealth of Pennsylvania's Department of General Services. The Authority also completed a 17-year water sourcing agreement for the SRMC facility that begins January 1<sup>st</sup>, 2017. Refuse and C&D in the Lancaster system is covered under five (5) year agreements with private haulers that deliver waste generated in Lancaster County to the Authority. The current agreement expires at the end of 2017. Even as long term electric sales agreements expired at the WTE facility, reducing the revenues under contract from 100% in 2015 to 44% in 2016 to 40% in 2017, the Authority is anticipating that percentage to significantly recover from 2017 as steam sales are implemented. In addition, the Authority will begin to leverage short term energy hedges to further optimize the wholesale values of energy produced at WTE being sold to the open market.

The Authority has steadily prepared for the December 31, 2017 expiration of the WTE and SRMC facility operation agreements. These preparations include the creation of forward looking economic models to accurately predict the impact of each variable including alternative assumptions.

The short term combination of significant business reinvestments, relatively low energy, metal and recycled material values will be a drag on our cash flows. However, we continue to benefit from a strong core tipping business and efficient operations. This in conjunction with new revenue streams, anticipated to come online beginning in 2017, will move our cash flows back to a level that ensures our future capital and operational needs are well funded.

### **Capital Expenses and Reserve Management**

The Authority's capital spending program is funded with free cash flow from operations. Cash derived from operations is invested in various unrestricted investment accounts for the purpose of capital outlays. These investment balances are monitored continuously to ensure payment for planned capital needs throughout the year.

The gross capital budget for 2017 escalates to \$18,836,800 which reflects a more intensive cycle of business reinvestment. The objective of these reinvestments is to ensure future system capacity and enhance the capabilities of the WTE and SRMC facilities. Less than 20% (or roughly \$3,500,000) would reflect the Authority's routine capital outlay for equipment replacement and maintenance. Project level capital investments include partial construction of the Frey Farm Landfill vertical expansion, improved ash handling capabilities at both WTE and SRMC, and a higher capacity water cooling tower at SRMC. These investments ensure future revenue streams and cost effective operations can continue to be relied upon.

### **REQUESTS for INFORMATION**

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

# Lancaster County Solid Waste Management Authority

## STATEMENTS of NET POSITION

December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 10,117,237	\$ 7,094,972
Investments	32,530,344	26,576,218
Accounts Receivable, net of Provision for Bad Debts of \$10,000 at 2016 and 2015	8,864,606	10,397,227
Grants Receivable, Current Portion	317,476	815,277
Notes Receivable, Current Portion	6,354	6,074
Interest Receivable	194,284	172,967
Inventory	26,248	16,481
Other Current Assets (Note 3)	195,355	1,022,160
<b>Total Current Assets</b>	<b>52,251,904</b>	<b>46,101,376</b>
<b>RESTRICTED ASSETS</b>		
Investments with Trustee (Note 4)	9,021,940	9,009,994
Interest Receivable	41	11
Total Restricted Assets with Trustee	9,021,981	9,010,005
Escrow Deposits	1,672,052	1,649,684
Closure and Post-Closure Care Funds	19,657,597	19,355,739
<b>Total Restricted Assets</b>	<b>30,351,630</b>	<b>30,015,428</b>
<b>OTHER ASSETS</b>		
Grant Receivable, net of Current Portion	199,166	199,166
Notes Receivable, net of Current Portion (Note 5)	2,548,501	2,554,855
Other - Raffles Insurance, Ltd.	31,000	31,000
<b>Total Other Assets</b>	<b>2,778,667</b>	<b>2,785,021</b>
<b>REAL ESTATE, FACILITIES, and EQUIPMENT (Note 6)</b>		
Waste-to-Energy Facility	140,077,399	140,865,811
Susquehanna Resource Management Complex	127,557,896	127,263,397
Landfill Facility	87,160,387	87,251,192
Transfer Station Complex	24,550,940	24,466,339
Equipment	20,003,982	18,894,897
Support Facilities	9,868,901	9,864,476
Other Real Estate	7,859,866	7,295,802
Administrative Building and Equipment	4,065,441	4,107,987
	421,144,812	420,009,901
Accumulated Depreciation	(200,502,262)	(188,941,597)
Net Depreciable Assets	220,642,550	231,068,304
Construction in Progress (Note 7)	8,758,076	5,819,845
<b>Net Real Estate, Facilities, and Equipment</b>	<b>229,400,626</b>	<b>236,888,149</b>
<b>TOTAL ASSETS</b>	<b>\$ 314,782,827</b>	<b>\$ 315,789,974</b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## STATEMENTS of NET POSITION

(Continued)

December 31, 2016 and 2015

	2016	2015
<b>LIABILITIES and NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt (Note 12)	\$ 4,025,000	\$ 3,925,000
Current Portion of Estimated Post-Closure Care Costs	137,000	118,000
Accounts Payable - Trade	5,724,908	5,015,833
Other Current Liabilities (Note 9)	960,316	894,642
Accrued Expenses (Note 10)	2,958,466	2,762,932
Accrued Interest Payable (Note 11)	<u>271,410</u>	<u>275,711</u>
<b>Total Current Liabilities</b>	<b>14,077,100</b>	<b>12,992,118</b>
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt, net of Current Portion (Note 12)	127,321,963	131,902,546
Estimated Closure and Post-Closure Care Liability, net of Current Portion	10,633,769	11,018,502
Other Long-Term Liabilities (Note 13)	<u>2,775,561</u>	<u>2,543,116</u>
<b>Total Long-Term Liabilities</b>	<b><u>140,731,293</u></b>	<b><u>145,464,164</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>154,808,393</u></b>	<b><u>158,456,282</u></b>
<b>NET POSITION (Note 14)</b>		
Net Investment in Capital Assets	107,075,644	110,070,608
Restricted	9,208,880	8,518,921
Unrestricted	<u>43,689,910</u>	<u>38,744,163</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 159,974,434</u></b>	<b><u>\$ 157,333,692</u></b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

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

Years Ended December 31, 2016 and 2015

	2016	2015
<b>OPERATING REVENUES</b>		
Tipping Fees	\$ 61,760,388	\$ 59,545,228
Energy	14,738,431	18,401,006
Transportation	1,549,966	1,540,205
Other	889,221	1,205,454
<b>Total Operating Revenues</b>	<b>78,938,006</b>	<b>80,691,893</b>
 <b>OPERATING EXPENSES</b>		
Waste-to-Energy Facility	22,476,694	23,230,173
Susquehanna Resource Management Complex	18,535,832	18,283,527
Depreciation	13,171,084	12,642,052
Landfills	4,284,513	4,319,801
Transfer Station Complex	3,241,425	3,051,474
Closure and Post-Closure Care	(234,865)	592,718
Household Hazardous Waste	475,214	449,586
<b>Total Operating Expenses</b>	<b>61,949,897</b>	<b>62,569,331</b>
 <b>SUPPORT EXPENSES</b>		
General and Administrative	11,862,224	11,011,216
Depreciation	49,621	54,095
<b>Total Support Expenses</b>	<b>11,911,845</b>	<b>11,065,311</b>
 <b>Total Operating and Support Expenses</b>	<b>73,861,742</b>	<b>73,634,642</b>
 <b>OPERATING INCOME</b>	<b>5,076,264</b>	<b>7,057,251</b>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>		
Grant Revenues	177,236	2,014,586
Gain on Disposal of Assets	1,058,174	241,282
Miscellaneous	425,175	370,707
Interest and Investment Earnings	673,671	601,975
Interest Expense	(4,769,778)	(5,139,214)
<b>Net Non-Operating Expenses</b>	<b>(2,435,522)</b>	<b>(1,910,664)</b>
 <b>CHANGES in NET POSITION</b>	<b>2,640,742</b>	<b>5,146,587</b>
 <b>NET POSITION</b>		
Beginning of Year	157,333,692	152,187,105
 <b>End of Year</b>	<b>\$ 159,974,434</b>	<b>\$ 157,333,692</b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## STATEMENTS of CASH FLOWS

Years Ended December 31, 2016 and 2015

	2016	2015
<b>CASH FLOWS from OPERATING ACTIVITIES</b>		
Receipts from Customers and Users	\$ 80,927,476	\$ 80,235,657
Payments to Suppliers	(53,870,360)	(54,513,972)
Payments to Employees	<u>(6,213,317)</u>	<u>(5,948,349)</u>
<b>Net Cash Provided by Operating Activities</b>	<b>20,843,799</b>	<b>19,773,336</b>
<b>CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES</b>		
State and Local Grant Income	<b>675,037</b>	<b>1,446,985</b>
<b>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</b>		
Interest Paid	(5,329,662)	(5,787,503)
Principal Payments	(3,925,000)	(9,925,000)
Payments for Capital Acquisitions	(6,289,629)	(12,033,900)
Proceeds from Sale of Capital Assets	<u>2,679,620</u>	<u>433,500</u>
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(12,864,671)</b>	<b>(27,312,903)</b>
<b>CASH FLOWS from INVESTING ACTIVITIES</b>		
Deposits Made for Escrow Funds	(22,368)	(190,343)
Principal Payments Received on Notes Receivable	6,074	5,808
Sales of Restricted Investments	36,513,400	55,186,131
Purchases of Restricted Investments	(36,963,811)	(53,762,883)
Receipts of Interest	960,610	977,884
Sales of Unrestricted Investments	19,075,665	14,340,799
Purchases of Unrestricted Investments	<u>(25,201,470)</u>	<u>(18,650,886)</u>
<b>Net Cash Used by Investing Activities</b>	<b>(5,631,900)</b>	<b>(2,093,490)</b>
<b>INCREASE (DECREASE) in CASH and CASH EQUIVALENTS</b>	<b>3,022,265</b>	<b>(8,186,072)</b>
<b>CASH and CASH EQUIVALENTS</b>		
Beginning	<u>7,094,972</u>	<u>15,281,044</u>
Ending	<b><u>\$ 10,117,237</u></b>	<b><u>\$ 7,094,972</u></b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## STATEMENTS of CASH FLOWS

(Continued)

Years Ended December 31, 2016 and 2015

	2016	2015
<b>RECONCILIATION of OPERATING INCOME</b>		
<b>to NET CASH PROVIDED by OPERATING ACTIVITIES</b>		
Operating Income	\$ 5,076,264	\$ 7,057,251
<b>ADJUSTMENTS to RECONCILE OPERATING INCOME</b>		
<b>to NET CASH PROVIDED by OPERATING ACTIVITIES</b>		
Depreciation	13,220,705	12,696,147
Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Position Included for Cash Flow	425,175	370,707
(Increase) Decrease in:		
Accounts Receivable	1,532,621	(909,821)
Inventory and Other Current Assets	817,038	(229,966)
Increase (Decrease) in:		
Current Liabilities	137,729	320,330
Estimated Closure and Post-Closure Care Costs	<u>(365,733)</u>	<u>468,688</u>
<b>Total Adjustments</b>	<b><u>15,767,535</u></b>	<b><u>12,716,085</u></b>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 20,843,799</u></b>	<b><u>\$ 19,773,336</u></b>

See notes to financial statements.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

#### Description of Operations

**Lancaster County Solid Waste Management Authority** (the "Authority") is a body corporate and politic organized and existing under the Pennsylvania Municipality Authorities Act. The Authority was incorporated on December 14, 1954. The Authority is governed by a Board of Directors comprised of nine members, each of whom is appointed by the Lancaster County Board of County Commissioners.

The Pennsylvania Solid Waste Management Act as amended ("Act 97") and the Pennsylvania Municipal Waste Planning, Recycling and Waste Reduction Act as amended ("Act 101") are comprehensive laws regulating the management of solid waste disposal throughout Pennsylvania. Under Act 97 and Act 101 (collectively, the "Acts"), each county is required to adopt a municipal waste management plan for municipal solid waste ("MSW") generated within its boundaries.

#### Lancaster County

The Lancaster County Municipal Waste Management Plan 2014 revised and updated the Lancaster County Municipal Waste Management Plan 2010 (the "Lancaster 2010 Plan"), the Lancaster County Municipal Waste Management Plan 1999 (the "Lancaster 1999 Plan"), and the Lancaster County Municipal Waste Management Plan 1990 (the "Lancaster 1990 Plan"). The Lancaster 2014, 2010, 1999, and 1990 Plans (collectively the "Lancaster Plan") were all duly approved by the Lancaster County Commissioners and the Pennsylvania Department of Environmental Protection ("PaDEP") in accordance with the Acts. The Lancaster Plan provides for a comprehensive and integrated system (the "Lancaster System") for management of MSW which is generated in Lancaster County, Pennsylvania. The Lancaster System includes, *inter alia*, (a) a waste-to-energy facility for combustion of municipal waste and generation of energy, (b) landfill facilities for the disposal of municipal solid waste and ash, (c) a transfer facility, (d) a recycling program, and (e) a household hazardous waste facility.

Under the Lancaster Plan, the Authority has been designated as the public agency responsible for (a) designing, developing, financing, constructing, and owning, operating and managing the Lancaster System, (b) conducting continuing municipal waste planning, and (c) implementing the Lancaster Plan. Such implementation is effected, *inter alia*, through the Lancaster County Municipal Waste Management Ordinance adopted May 31, 1990 (the "Lancaster 1990 Ordinance") and the Municipal Waste Management Agreement between the Authority and the County of Lancaster effective as of October 15, 1990, (the "Municipal Waste Management Agreement"). Neither the Lancaster 1990 Ordinance nor the Municipal Waste Management Agreement may be amended without the Authority's consent. The Lancaster Plan has the force of law and violators are subject to civil and criminal penalties.

The effect of the Lancaster Plan, and the ordinances and agreements which implement the Lancaster Plan, is (a) to delegate to the Authority the County's rights, duties, and obligations for implementation of the Lancaster Plan, (b) to grant to the Authority all powers which are necessary or appropriate to design, develop, finance, construct, own, operate, and manage the Lancaster System, (c) to require delivery to facilities designated by the Authority of substantially all municipal solid waste generated in Lancaster County not source separated or recycled, (d) to require permitting of all municipal waste collectors and haulers, and (e) to authorize the Authority to establish tipping fees to be collected from each person delivering waste to the Lancaster System.

The Authority, which has no taxing power, establishes from time to time solid waste disposal fees at rates based upon prevailing market conditions in amounts which enable the Authority to obtain sufficient waste volume so that its revenues, together with other resources, are sufficient to cover all of the Authority's Lancaster System operating costs, administrative costs, capital costs, and other costs, including debt service. No public utility or other regulatory review of the Authority's rate or fee schedule is required.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Dauphin County

Until 2014, the Authority had primarily conducted waste disposal operations in the County of Lancaster. With the acquisition of the Susquehanna Resource Management Complex on December 23, 2013, the Authority expanded its operations into adjoining Dauphin County. The Susquehanna Resource Management Complex, formerly known as the Harrisburg Resource Recovery Facility, is located on a parcel situated in Swatara Township and the City of Harrisburg, Dauphin County, Pennsylvania (the "Site"). The Site includes: (a) the Susquehanna Resource Management Facility, which is designed to process 800 tons per day of MSW and produce steam to generate up to 23 megawatts of electricity; (b) an ash landfill containing closed and two active monofill cells; and (c) various other buildings and equipment.

In conjunction with this acquisition of the Susquehanna Resource Management Complex by the Authority, the County of Dauphin delegated to the Authority its duties and obligations to ensure adequate disposal capacity for municipal solid waste generated in Dauphin County, and provided waste flow control regulations that require, with limited exception, all such MSW be delivered to the Susquehanna Resource Management Complex. In May 1991, the Dauphin County Municipal Waste Management Plan was approved by PaDEP, having previously been approved by Dauphin County and the requisite number of municipalities. The Dauphin County 1991 Plan was amended by the Dauphin County 1994, 1995, 1999, and 2003 Non-substantial Plan Revisions (collectively the "Dauphin County Plan"). In 2004, the Dauphin County Plan was revised to make the Susquehanna Resource Management Complex (then known as the Harrisburg Materials and Energy Resource Recovery Facility) the designated facility for all Dauphin County MSW, except for the MSW generated in Swatara Township and Highspire Borough which concluded in May 2016. In 2005, a Substantial Plan Revision provided for disposal of construction and demolition ("C & D") waste in twelve designated landfill facilities. In October 2013, a Nonsubstantial Plan Revision was deemed approved by PaDEP recognizing that, upon closing and acquisition of the Susquehanna Resource Management Complex, the Authority will be the governmental entity responsible for assuring adequate MSW processing and disposal capacity for Dauphin County and as the owner of the designated facility. Dauphin County originally adopted a flow control ordinance in 1991 and the ordinance was amended in 2013 to conform to the Dauphin 2013 Nonsubstantial Plan Revision and the Delegation Agreement.

Unlike the Lancaster Plan, the Dauphin County Plan provides that the Authority has responsibility within Dauphin County solely for the processing and disposal of MSW. In addition to certain agreed rates for MSW generated within Dauphin County, the Authority establishes, from time to time, solid waste disposal fees for out-of-County MSW at rates based upon prevailing market conditions in amounts which enable the Authority to obtain sufficient waste volume so that its revenues, together with other resources, are sufficient to cover all of the Authority's Susquehanna Resource Management Complex operating costs, administrative costs, capital costs, and other costs, including debt service. No public utility or other regulatory review of the Authority's rate or fee schedule is required.

#### Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended, *Financial Reporting Entity*, the financial statements of the reporting entity (the Authority) include those of the **Lancaster County Solid Waste Management Authority** and any component units. Consistent with applicable guidance, the criteria used by the entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the Authority reviews the applicability of the following criteria:

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Reporting Entity (Continued)

The Authority is financially accountable for:

1. Organizations that make up the legal reporting entity.
2. Legally separate organizations if the Authority appoints a voting majority of the organization's governing body and the Authority is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Authority.

The Authority is able to impose its will on an organization if the Authority can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

There is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Authority if the Authority (a) is entitled to the organization's resources, or (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (c) is obligated in some manner for the debt of the organization.

3. Organizations which are fiscally dependent on the Authority and have a financial benefit or burden, as defined above. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, or set rates or charges, or issue bonded debt without approval by the Authority.

Based on the criteria above, there were no additional entities required to be included in the reporting entity for the current period.

#### Basis of Accounting

**The Lancaster County Solid Waste Management Authority** operates as a business-type activity and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority follows all applicable GASB pronouncements.

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

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

#### Cash and Cash Equivalents

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

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Unrestricted Investments

Unrestricted investments are recorded at fair value and are classified as current assets due to their readily marketable nature.

#### Restricted Assets

##### Investments with Trustee

Pursuant to the terms of certain bond indentures, certain monies are held by a Trustee. The Authority is in compliance with investment guidelines regarding types of investments permitted. Investments are generally reported at fair value in accordance with accounting principles generally accepted in the United States of America.

##### Escrow Deposits

In order to assure timely payment of amounts due to the Authority, the City of Harrisburg has placed funds on deposit with the Authority. In the event that the City of Harrisburg fails to remit tipping fees or shortfall fees, as defined in the municipal waste disposal agreement between the parties, within thirty days of the due date, the Authority is authorized to withdraw such delinquent amounts from the escrow deposit, and the City of Harrisburg is obligated to restore the escrow deposit so withdrawn within thirty days of notice.

The Authority also holds certain deposits in escrow as required pursuant to the electric plant lease for the Susquehanna Resource Management Complex, as discussed in Note 19, and as a condition of participation in a captive insurance program.

##### Closure and Post-Closure Funds

Certain cash accounts held by the Authority are set aside for landfill closure and post-closure monitoring costs. The accounts are properly classified as restricted assets on the statements of net position. Regulations require the Authority to maintain the restricted accounts for the landfill closure and post-closure monitoring costs.

#### Inventory

Inventory consists of vehicle parts and accessories stated at the lower of cost, on the first-in-first-out basis, or market.

#### Real Estate, Facilities, and Equipment - Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are generally defined by the Authority as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. The Authority capitalizes computer equipment with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities may be included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous fiscal year.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Real Estate, Facilities, and Equipment - Capital Assets (Continued)

Facilities and equipment are depreciated using the straight-line method over the following estimated useful lives:

Building and Fixtures	25 to 40 Years
Motor Vehicles	5 to 10 Years
Office Equipment	5 to 10 Years
Operating Equipment	5 to 10 Years
Support Equipment	5 to 10 Years

Depreciation of landfill cell development and site costs is recorded based on remaining units of capacity. Total depreciation for all capital assets of the Authority for the years ended December 31, 2016 and 2015, was \$13,220,705 and \$12,696,147, respectively.

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites. These costs totaled \$8,758,076 and \$5,819,845 at December 31, 2016 and 2015, respectively.

#### Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB.

GASB No. 45 generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers are based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. The provisions of GASB No. 45 may be applied prospectively and do not require governments to fund their OPEB plans. Employers were permitted to establish OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods.

#### Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates relate primarily to closure and post-closure care costs, depreciation of fixed assets, and the obligation for other postemployment benefits. Accordingly, actual results may differ from estimated amounts.

#### Net Position

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

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Accounting Standards Adopted in 2016

During the current year, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. As a result of implementation of this standard in 2016, the Authority has revised the disclosures regarding investments.

During the current year, the Authority adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify the hierarchy of generally accepted accounting principles (GAAP) in the context of the current governmental financial reporting environment. The implementation of this statement had no substantive effect on the Authority's 2016 financial statements.

During the current year, the Authority adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this statement is to enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The Authority's beginning balances and current year results were not affected by the implementation of this new standard.

#### Pending Changes in Accounting Principles

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this statement is to improve accounting and financial reporting for state and local governments for postemployment benefits other than pensions (OPEB). The provisions of this statement are effective for the Authority's 2018 financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The statement amends GASB Statement No. 14, *The Financial Reporting Entity*, by specifying that a component unit should be included in the reporting entity using the blending method if the component unit is organized as a not-for-profit corporation, the primary government is the sole corporate member, and the component unit is included in the financial reporting entity pursuant to the provisions of paragraphs 21 through 37 of GASB Statement No. 14. The provisions of this statement are effective for the Authority's 2017 financial statements.

In March, 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this statement are effective for the Authority's 2017 financial statements.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Pending Changes in Accounting Principles (Continued)**

In March, 2016, GASB issued Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this statement are effective for the Authority's 2017 financial statements.

In November, 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this statement are effective for the Authority's 2019 financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this statement are effective for the Authority's 2019 financial statements.

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

### **NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS**

Pennsylvania statutes provide for investment of Authority funds into certain authorized investment types including U.S. Treasury bills, short-term U.S. and Pennsylvania government obligations, insured or collateralized time deposits and certificates of deposit, commercial paper not to exceed 270 days, obligations of the U.S. or Pennsylvania government which are backed by the full faith and credit of the U.S. or Pennsylvania government, certain high-quality corporate and bank instruments, and registered mutual funds which invest only in the preceding instruments. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Authority funds for investment purposes.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practice. There were no significant deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Authority.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Authority has a formal policy for custodial credit risk. As of December 31, 2016, \$9,134,295 of the Authority's bank balance of \$18,324,215 was exposed to custodial credit risk as:

Uninsured and Uncollateralized	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-
Uninsured and Collateral Held by the Pledging Financial Institution's Trust Department not in the Authority's Name	<u>9,134,295</u>
	<b>9,134,295</b>

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

Uninsured Amount Above	9,134,295
Plus: Insured Amount	<u>9,189,920</u>
Bank Balance	18,324,215
Deposits in Transit	21,096
Outstanding Checks	<u>(371,663)</u>
Carrying Amount - Bank Balances	17,973,648
Petty Cash	3,400
Money Market Funds and Commercial Paper Classified as Cash Equivalents	2,732,797
Escrow Deposits in Restricted Assets	(1,652,688)
Certificates of Deposit Classified as Investments	<u>(8,939,920)</u>
<b>Total Cash and Cash Equivalents Per Financial Statements</b>	<b>10,117,237</b>

#### Investments

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

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Investments (Continued)

Investments' fair value measurements are as follows at December 31, 2016 and 2015:

Investments	Recorded Value	Fair Value Measurements Using			Maturity
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
<b>2016</b>					
<b>Investments Recorded at Fair Value:</b>					
Municipal Bonds	555,642		555,642		< 1 Year
	199,626		199,626		1 - 5 Years
U.S. Agency Securities	1,738,183		1,738,183		< 1 Year
	9,329,222		9,329,222		1 - 5 Years
	1,178,113		1,178,113		6 - 10 Years
	3,537,252		3,537,252		> 10 Years
U.S. Treasury Securities	3,672,393		3,672,393		< 1 Year
	22,656,030		22,656,030		1 - 5 Years
	6,103,254		6,103,254		6 - 10 Years
Money Market Funds	2,126,553	2,126,553			
Commercial Paper	<u>4,026,927</u>		<u>4,026,927</u>		< 1 Year
<b>Total Investments at Fair Value</b>	<b>55,123,195</b>	<b>2,126,553</b>	<b>52,996,642</b>	<b>-0-</b>	

Investments	Recorded Value	Fair Value Measurements Using			Maturity
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
<b>2015</b>					
<b>Investments Recorded at Fair Value:</b>					
Municipal Bonds	2,736,000		2,736,000		< 1 Year
	831,797		831,797		1 - 5 Years
U.S. Agency Securities	725,502		725,502		< 1 Year
	9,019,285		9,019,285		1 - 5 Years
	1,101,593		1,101,593		6 - 10 Years
	4,974,225		4,974,225		> 10 Years
U.S. Treasury Securities	7,891,355		7,891,355		< 1 Year
	14,825,360		14,825,360		1 - 5 Years
	3,355,187		3,355,187		6 - 10 Years
Money Market Funds	<u>6,260,274</u>	<u>6,260,274</u>			
<b>Total Investments at Fair Value</b>	<b>51,720,578</b>	<b>6,260,274</b>	<b>45,460,304</b>	<b>-0-</b>	

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Investments (Continued)

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

#### Interest Rate Risk

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

#### Credit Risk

The Authority has a formal investment policy that limits its investment choices to certain credit ratings. As of December 31, 2016 and 2015, the Authority's investments were rated as:

	<b>2016</b>			
	<b>AAA</b>	<b>AA</b>	<b>A</b>	
Tax Exempt Municipal Bonds		679,919	75,349	
U.S. Agency Securities	15,782,770			
U.S. Treasury Securities	32,431,677			
Money Market Mutual Funds	2,126,553			
Commercial Paper	<u>3,291,268</u>		<u>735,659</u>	
	<b>53,632,268</b>	<b>679,919</b>	<b>811,008</b>	
	<b>2015</b>			
	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>
Tax Exempt Municipal Bonds		2,121,236	875,653	570,938
U.S. Agency Securities	15,820,575			
U.S. Treasury Securities	26,071,902			
Money Market Mutual Funds	<u>6,260,274</u>			
	<b>48,152,751</b>	<b>2,121,236</b>	<b>875,653</b>	<b>570,938</b>

#### Concentration of Credit Risk

The Authority has a formal investment policy that limits the amount it may invest in any one issuer to 30% of total investments. More than 5% of the Authority's investments are in Federal Home Loan Mortgage Corporation obligations and Federal National Mortgage Association Pool. These investments are 5.8% and 5.3% of total investments, respectively.

#### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Authority has a formal investment policy regarding custodial credit risk. At December 31, 2016 and 2015, none of the Authority's investments were exposed to custodial credit risk.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

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

#### Reconciliation of Investments to Financial Statements

	2016	2015
Total Investments Per Footnotes	55,123,195	51,720,578
Less: Money Market Funds/Commercial Paper	(2,732,797)	(3,386,632)
Less: Investments in Escrow Deposits	(120,437)	(299,684)
Add: Certificates of Deposit	<u>8,939,920</u>	<u>6,907,689</u>
<b>Total Investments per Financial Statements</b>	<b>61,209,881</b>	<b>54,941,951</b>

The following schedule summarizes investments and their classifications in the statements of net position at December 31, 2016 and 2015:

	2016	2015
Unrestricted Assets:		
Investments	32,530,344	26,576,218
Restricted Assets:		
Investments with Trustee	9,021,940	9,009,994
Closure and Post-Closure Care Funds	<u>19,657,597</u>	<u>19,355,739</u>
	<b>61,209,881</b>	<b>54,941,951</b>

### NOTE 3 - OTHER CURRENT ASSETS

Balances consisted of the following at December 31, 2016 and 2015:

	2016	2015
Prepaid Insurance	52,289	859,767
Other Prepaid Expenses	<u>143,066</u>	<u>162,393</u>
	<b>195,355</b>	<b>1,022,160</b>

### NOTE 4 - RESTRICTED ASSETS with TRUSTEE

Pursuant to the Amended and Restated Trust Indenture dated March 17, 1998, the following investments were held with the Trustee at December 31, 2016 and 2015:

	2016	2015
Debt Service Reserve Funds	9,021,940	9,009,994

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 5 - NOTES RECEIVABLE

#### Mortgage Note Receivable

On December 22, 2009, the Authority sold real estate to an individual. In conjunction therewith, the Authority holds a mortgage note receivable in the original principal amount of \$470,800. The note was modified December 2014, to reduce the interest rate to 4.5% and reduce the monthly payments to \$1,824, commencing January 2015. A balloon payment of the entire principal balance outstanding, originally due December 2011, was extended to December 2019.

#### Note Receivable from MP2 Capital, LLC

During the year ended December 31, 2011, the Authority entered into Solar Power Purchase Agreements and Lease with MP2 Capital, LLC (MP2). Pursuant to the terms of these agreements, MP2 installed a solar project at the Authority's transfer station complex and was granted a leasehold improvement interest thereon. The Authority provided MP2 with partial financing for the project in the form of an improvement loan. The note bears interest at 4.25% until the fifth anniversary of the commercial operation date of the project, and 2% thereafter. Interest only is due in quarterly installments on the note for five years beginning one month after the first quarterly invoice date following the commercial operation date, with principal and interest due thereafter, in equal installments sufficient to amortize the note over 15 years.

MP2 pays the Authority rentals totaling \$6,042 per quarter. The Authority has committed to purchase all of the solar output of the project during the purchase term, as defined in the agreement. The Authority has the option to purchase the solar project on the fifth anniversary of the commercial operation date, and every two years thereafter, for a predefined value net of the note receivable balance.

Notes receivable balances at December 31, 2016 and 2015, are summarized as follows:

	<b>December 31, 2016</b>		
	<b>Current Portion</b>	<b>Long-Term Portion</b>	<b>Total</b>
Mortgage Note Receivable	6,354	341,764	348,118
Notes Receivable from MP2 Capital, LLC	<u>        </u>	<u>2,206,737</u>	<u>2,206,737</u>
	<b>6,354</b>	<b>2,548,501</b>	<b>2,554,855</b>
	<b>December 31, 2015</b>		
	<b>Current Portion</b>	<b>Long-Term Portion</b>	<b>Total</b>
Mortgage Note Receivable	6,074	348,118	354,192
Notes Receivable from MP2 Capital, LLC	<u>        </u>	<u>2,206,737</u>	<u>2,206,737</u>
	<b>6,074</b>	<b>2,554,855</b>	<b>2,560,929</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 6 - REAL ESTATE, FACILITIES, and EQUIPMENT - CAPITAL ASSETS

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

	Balance January 1, 2016	Additions	Deletions/ Transfers	Balance December 31, 2016
Capital Assets not Being Depreciated:				
Land and Improvements	23,886,685		(847,029)	23,039,656
Construction in Progress	<u>5,819,845</u>	<u>3,301,217</u>	<u>(362,986)</u>	<u>8,758,076</u>
<b>Total Capital Assets not         Being Depreciated</b>	<b>29,706,530</b>	<b>3,301,217</b>	<b>(1,210,015)</b>	<b>31,797,732</b>
Capital Assets Being Depreciated:				
Waste-to-Energy Facility	137,436,065	137,547	(78,929)	137,494,683
Accumulated Depreciation	(98,841,559)	(3,934,221)	65,601	(102,710,179)
Susquehanna Resource Management Complex	127,263,397	798,756	(504,257)	127,557,896
Accumulated Depreciation	(8,449,126)	(4,979,949)	55,779	(13,373,296)
Landfill Facility	67,128,056	286,657	(377,463)	67,037,250
Accumulated Depreciation	(58,701,640)	(855,832)	373,859	(59,183,613)
Transfer Station Complex	24,442,932	84,600		24,527,532
Accumulated Depreciation	(6,042,733)	(818,483)		(6,861,216)
Equipment	18,894,897	2,375,319	(1,266,234)	20,003,982
Accumulated Depreciation	(11,072,805)	(1,868,475)	1,026,868	(11,914,412)
Support Facilities	9,864,476	4,425		9,868,901
Accumulated Depreciation	(2,289,983)	(335,408)		(2,625,391)
Other Real Estate	7,068,406	270,548	293,516	7,632,470
Accumulated Depreciation	(791,532)	(219,915)		(1,011,447)
Administrative Building and Equipment	4,024,987	95,557	(138,102)	3,982,442
Accumulated Depreciation	<u>(2,752,219)</u>	<u>(208,507)</u>	<u>138,018</u>	<u>(2,822,708)</u>
<b>Capital Assets Being         Depreciated, net</b>	<b><u>207,181,619</u></b>	<b><u>(9,167,381)</u></b>	<b><u>(411,344)</u></b>	<b><u>197,602,894</u></b>
<b>Capital Assets, net</b>	<b>236,888,149</b>	<b>(5,866,164)</b>	<b>(1,621,359)</b>	<b>229,400,626</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 7 - CONSTRUCTION in PROGRESS

The Authority has uncompleted projects shown as follows:

Description	Balance January 1, 2016	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2016
Landfill Facility	4,921,110	533,875	-0-	5,454,985
Waste-to-Energy Facility	-0-	312,161	-0-	312,161
Susquehanna Resource Management Complex	605,219	2,455,183	(69,472)	2,990,930
Other Real Estate	<u>293,516</u>	<u>-0-</u>	<u>(293,516)</u>	<u>-0-</u>
	<b>5,819,845</b>	<b>3,301,219</b>	<b>(362,988)</b>	<b>8,758,076</b>

Construction in progress relates to future landfill development associated with vertical expansion of the Frey Farm Landfill, improvement projects at the Waste-to-Energy Facility, and improvement projects at the Susquehanna Resource Management Complex.

### NOTE 8 - OTHER ASSETS, REAL ESTATE PURCHASES, and SALE COMMITMENTS

During April 2002, the Authority entered into (a) an Agreement with Manor Township and (b) a Consent Order to settle certain pending litigation. Pursuant to the Agreement and the Consent Order and in order to protect the value of certain properties in Manor Township, Lancaster County, Pennsylvania, the Authority agreed to purchase, if requested to do so by the owner thereof, forty-seven properties at the fair market value determined without regard to any impact of the Authority's facilities or activities.

To date, the Authority has purchased twenty-two of the forty-seven properties at a cost of \$5,168,463. The Authority has resold twelve of the twenty-two properties, net of costs, for \$1,621,830. Those twelve properties were purchased by the Authority for \$1,802,486. The Authority also made improvements to these properties in the amount of \$78,520. In addition, the Authority has been relieved of the obligation to purchase one of the forty-seven properties.

The Authority owns two residential properties in Manor Township which, pursuant to agreements entered into in December 2000, are occupied by their former owners. Each agreement provides that the Authority will reimburse the former owner for maintenance and repair expenses in the amount of \$1,000 per month. The monthly payments will continue if the former owner resides in the property, until January 1, 2025. In the case of any owner who ceases to reside at the property, the agreement provides for a relocation fee (in lieu of the \$1,000 per month) in the amount of \$250 times the number of months from the date of the owner's vacating the property until January 1, 2025.

In September 2011, the Authority entered into an option agreement to sell real estate to Perdue Grain & Oilseed, LLC (Perdue). In consideration of payments totaling \$110,000, the Authority granted to Perdue the right to purchase approximately 57 acres of land adjacent to the Authority's Waste-to-Energy Facility. The option was exercised in June 2016, and Perdue acquired the 57 acres for \$2,478,000.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 8 - OTHER ASSETS, REAL ESTATE PURCHASES, and SALE COMMITMENTS (Continued)

As part of its recycling programs, the County of Dauphin owns and operates a 15,000 square foot materials collection facility known as the Dauphin County Recycling Center (DCRC), on the Susquehanna Resource Management Complex site. The County of Dauphin owns the building and leases the site upon which it is located from the Authority pursuant to a February 25, 2004 ground lease. The ground lease site is within the Susquehanna Resource Management Complex site and the County of Dauphin is entitled to access to the ground lease site. The ground lease has an initial term of 29 years, with two 10 year extensions, with annual rental of \$1. The DCRC building may be used only as a materials collection facility and may not be subleased. The County of Dauphin bears all costs related to the DCRC building and operations. Upon termination of the ground lease, the DCRC building becomes the property of the Authority.

### NOTE 9 - OTHER CURRENT LIABILITIES

Balances consisted of the following at December 31, 2016 and 2015:

	2016	2015
Prepaid Disposal Fees	960,316	741,421
Other Deposits	<u>-0-</u>	<u>153,221</u>
	<b>960,316</b>	<b>894,642</b>

### NOTE 10 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2016 and 2015:

	2016	2015
Accrued Host Fees	295,440	238,233
Accrued DEP Recycling Fees	656,159	690,255
Accrued County Closure Fee	24,743	25,599
Accrued Haulers Rebate	1,025,760	898,041
Accrued Prepaid Rebate	54,390	41,640
Accrued Payroll	487,003	423,671
Payroll Taxes and Pension Plan		
Accrued and Withheld	70,829	71,059
Miscellaneous Accruals	<u>344,142</u>	<u>374,434</u>
	<b>2,958,466</b>	<b>2,762,932</b>

### NOTE 11 - ACCRUED INTEREST PAYABLE

Accrued interest payable reflects the liability calculated from the anniversary of debt payment to December 31.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 12 - LONG-TERM DEBT

Long-term debt at December 31, 2016, is summarized as follows:

#### **\$10,000,000 Transfer Station Renovation Note, Series of 2005**

On July 15, 2005, the Authority issued a \$10,000,000 Transfer Station Renovation Note, Series of 2005 for the design, engineering, construction and installation of, purchase and reimbursement of construction materials and equipment for, and reimbursement of costs and expenses in connection with a transfer station facility to be constructed on property owned by the Authority. The interest rate was at 3.150%. The principal amount was due in various amounts through December 2015. The note was paid in full at December 31, 2015.

#### **\$30,620,000 Resource Recovery System Revenue Bonds, Series of 2006**

On October 17, 2006, the Authority issued \$30,620,000 Resource Recovery System Revenue Bonds, Series of 2006 to (a) advance refund the Authority's Resource Recovery System Revenue Bonds, 1998 Series B, (b) fund a debt service reserve fund, and (c) pay the costs of issuing the Series 2006 Bonds. The bonds were payable in various principal amounts from December 2013 to December 2015, and bore interest at rates from 3.70% to 5.00%. The bonds were paid in full at December 2015.

#### **\$105,390,000 Solid Waste Disposal System Revenue Bonds, Series A of 2013**

The Solid Waste Disposal System Revenue Bonds, Series A of 2013, were issued to (a) provide funds toward the acquisition of the Susquehanna Resource Management Complex, (b) provide funds for capital improvements at the Susquehanna Resource Management Complex, (c) fund a debt reserve service fund, and (d) pay the costs of issuing the bonds. The bonds are payable in various amounts from 2016 through 2033, and bear fixed rates of interest from 2.50% to 5.25%.

#### **\$24,000,000 Guaranteed Authority Bonds (Dauphin County Guaranty) Series B of 2013**

The Guaranteed Authority Bonds, Series B of 2013, were issued to provide funds toward the acquisition of the Susquehanna Resource Management Complex. The 2013 Series B Bonds are not secured by the revenues, facilities, or assets of the Authority. The bonds are guaranteed by the County of Dauphin, and under that guaranty, the County of Dauphin has pledged its full faith, credit and taxing power. The bonds mature in 2033, and bear interest at 5.0%. Pursuant to a Cooperation Agreement between the Authority and the County of Dauphin, the Authority is responsible for payment of \$240,000 interest per annum on the 2013 Series B Bonds, and the County of Dauphin is responsible for the balance. The Cooperation Agreement may only be enforced by the Authority and, as such, the Authority does not have the obligation to repay Dauphin County should Dauphin County be required to perform under the guaranty.

If, on or before the end of the term of the 2013A Bonds and 2013B Bonds: (a) the County of Dauphin takes all necessary steps to continue legally enforceable waste flow control for an additional ten years with the County of Dauphin tip fees not less than the tip fees in the preceding year (or if the County of Dauphin legally cannot extend waste flow control), then the Authority will, at the Authority's option: (i) repay the unpaid principal of the 2013B Bonds and retain the Susquehanna Resource Management Complex; or (ii) upon the County of Dauphin repayment of the 2013B Bonds, convey the Susquehanna Resource Management Complex to the County of Dauphin; or (b), if the County of Dauphin is legally able to extend waste flow control, but fails to do so, then the County of Dauphin shall repay the unpaid principal of the 2013B Bonds and the Authority shall retain ownership of the Susquehanna Resource Management Complex.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 12 - LONG-TERM DEBT (Continued)

Long-term debt consists of the following at December 31, 2016:

	2013 A Series	2013 B Series	Total
Principal Amount Due	101,465,000	24,000,000	125,465,000
Less: Current Portion	<u>4,025,000</u>	<u>-0-</u>	<u>4,025,000</u>
Long-Term Principal Due	<b>97,440,000</b>	<b>24,000,000</b>	<b>121,440,000</b>
Original Issue Premiums, Net of Accumulated Amortization			<u>5,881,963</u>
<b>Long-Term Debt, net of Current Portion</b>			<b>127,321,963</b>

The following is a summary of the Authority's long-term debt transactions for the year ended December 31, 2016:

Debt Outstanding - January 1, 2016	129,390,000
New Debt Issuance	-0-
Repayments	<u>(3,925,000)</u>
Debt Outstanding - December 31, 2016	<b>125,465,000</b>

The annual debt service requirements for all outstanding debt as of December 31, 2016, are as follows:

Year	Principal	Interest	Dauphin County Reimbursement **	Net
2017	4,025,000	6,191,538	(960,000)	9,256,538
2018	4,125,000	6,090,913	(960,000)	9,255,913
2019	4,330,000	5,884,663	(960,000)	9,254,663
2020	4,550,000	5,668,163	(960,000)	9,258,163
2021	4,775,000	5,440,663	(960,000)	9,255,663
2022 - 2026	27,645,000	23,435,225	(4,800,000)	46,280,225
2027 - 2031	35,230,000	15,849,050	(4,800,000)	46,279,050
2032 - 2033	<u>40,785,000</u>	<u>3,646,925</u>	<u>(1,920,000)</u>	<u>42,511,925</u>
	<b>125,465,000</b>	<b>72,207,140</b>	<b>(16,320,000)</b>	<b>181,352,140</b>

\*\* Represents payment from County of Dauphin for interest, in excess of \$240,000 per year, on the 2013 Series B Bonds.

All bonds and bank notes, except the 2013 Series B Bonds, are secured by the pledge of all of the Authority's right, title, and interest in the Authority's revenues and by all money and securities (except the rebate fund) held by the Trustee under the Amended and Restated Trust Indenture.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 13 - OTHER LONG-TERM LIABILITIES

Balances consisted of the following at December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Net Other Postemployment Benefits (OPEB)		
Obligation	727,059	618,828
Nonqualified Deferred Compensation Plan Obligation	698,502	574,288
Escrow Liability	<u>1,350,000</u>	<u>1,350,000</u>
	<b>2,775,561</b>	<b>2,543,116</b>

### NOTE 14 - NET POSITION

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

**Restricted** - Restricted net position is comprised of the following as of December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Restricted for Landfill Closure and Post-Closure		
Care Costs	8,886,828	8,219,237
Other	<u>322,052</u>	<u>299,684</u>
	<b>9,208,880</b>	<b>8,518,921</b>

**Unrestricted** - The Authority has established (a) a Construction Reserve Fund for anticipated future projects, (b) a Revenue Reserve Fund pursuant to certain provisions of the Amended and Restated Trust Indenture, and (c) a Capital Projects Reserve Fund for future tangible asset replacements and additions. The balances are reported at the fair values of the investments in the funds, are included in unrestricted net position, and are board designated to their defined purpose. For the years ended December 31, 2016 and 2015, the balance of unrestricted net position is as follows:

	<b>2016</b>	<b>2015</b>
Board Designated Unrestricted Net Position:		
Construction/Capital Reserve Fund	26,712,152	21,393,128
Revenue Reserve Fund	<u>8,173,573</u>	<u>8,102,955</u>
<b>Total Board Designated Unrestricted Net Position</b>	<b>34,885,725</b>	<b>29,496,083</b>
Undesignated Unrestricted Net Position	<u>8,804,185</u>	<u>9,248,080</u>
<b>Total Unrestricted Net Position</b>	<b>43,689,910</b>	<b>38,744,163</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 15 - GRANTS

The Authority recognizes grant revenues in the period in which all eligibility requirements have been satisfied. These grants may be subject to compliance requirements and audits, and the Authority may be liable for disallowed expenses. Grant revenues were as follows for the years ending December 31, 2016 and 2015:

	2016	2015
Redevelopment Assistance Capital Program Grant for Acquisition and Improvements at the Susquehanna Resource Management Complex	-0-	1,587,640
Grants from PA Department of Environmental Protection	<u>177,236</u>	<u>426,946</u>
	<b>177,236</b>	<b>2,014,586</b>

### NOTE 16 - DEFINED CONTRIBUTION PENSION PLAN

The Authority has a defined contribution money purchase pension plan (MPPP) covering substantially all of its employees. The Authority also has an Internal Revenue Code Section 457 Eligible Deferred Compensation Plan (EDCP). Benefit terms, including contribution requirements, for the MPPP are established and may be amended by the Authority's Board of Directors. The MPPP is administered by an administrative committee. A trustee receives, disburses, and invests plan assets.

#### Benefit Provisions

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

#### Vesting

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

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

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

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 16 - DEFINED CONTRIBUTION PENSION PLAN (Continued)

#### Employer Contributions

The Authority contributes seven percent (7%) of the active participant's pay to the MPPP (base contribution). The Authority also matches a participant's contribution to the EDCP up to five percent (5%) of pay (matching contribution). All Authority contributions are deposited into the MPPP, regardless of the plan to which the participant makes contributions. The total potential Authority contribution is a maximum of twelve percent (12%). The Authority recognized pension expense for the years ended December 31, 2016 and 2015, of \$688,637 and \$670,574, respectively.

#### Employee Contributions

Participants may contribute to the maximum allowed by the IRS to either the MPPP or EDCP or both. Participant contributions are on a post-tax basis to the MPPP and on a pre-tax basis to the EDCP. Employees' elected contributions for the years ended December 31, 2016 and 2015, were \$389,666 and \$364,704, respectively.

### NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS

#### Description

The Authority has adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In addition to the relevant disclosures within this note related to GASB Statement No. 45, the financial statements reflect a long-term liability of \$727,059 and \$618,828 at December 31, 2016 and 2015, respectively, in other long-term liabilities for OPEB obligations.

The Authority maintains a single employer defined benefit plan to permit employees who retire at age 62 or later, with twenty or more years of service, to continue group medical coverage to age 65 or until eligible for Medicare, whichever occurs first, by remitting a portion of the monthly cost to the Authority. The retired member must pay a portion of the cost, equal to the active participants' contribution (\$806 per year in 2016 and 2015) for retiree coverage. Healthcare can be continued for the retiree's spouse based on a tiered premium contribution that is based on the age and years of service of the retiree. Retiree and spousal healthcare coverage ceases at age 65 or a maximum of 3 to 5 years based on the retiree's age and years of service at retirement. The retiree's portion of the cost is payable in advance on a monthly basis. The Authority pays the remainder of the cost. The plan is governed by the Authority which may amend the benefit provisions and contribution requirements by action of its Board of Directors. The plan does not issue financial statements.

#### Funding Policy

The Authority has elected to finance costs on a pay-as-you-go basis.

The Authority's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Authority has elected to amortize its initial unfunded actuarial liability over ten years. The following illustrates the components of the Authority's annual OPEB cost for the year, the amount actually contributed, and changes in the Authority's net OPEB obligation at December 31:

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

#### Annual OPEB Cost and Net OPEB Obligation

	2016	2015	2014
Annual Required Contribution	208,985	209,238	202,214
Interest on Net OPEB Obligation	24,753	21,218	17,383
Adjustment to Annual Required Contribution	<u>(73,362)</u>	<u>(62,884)</u>	<u>(51,519)</u>
Annual OPEB Cost	160,376	167,572	168,078
Contributions Made	<u>52,145</u>	<u>79,190</u>	<u>72,210</u>
Increase in Net OPEB Obligation	108,231	88,382	95,868
Net OPEB Obligation - Beginning of Year	<u>618,828</u>	<u>530,446</u>	<u>434,578</u>
<b>Net OPEB Obligation - End of Year</b>	<b>727,059</b>	<b>618,828</b>	<b>530,446</b>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2014, 2015, and 2016, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation - End of Year
12/31/2014	168,078	43%	530,446
12/31/2015	167,572	47%	618,828
12/31/2016	160,376	33%	727,059

#### Funding Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled \$1,213,332, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,213,332. The covered payroll (annual payroll of active employees covered by the plan) equaled \$5,469,839, and the ratio of the UAAL to the covered payroll equaled 22.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Authority is required to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the Authority maintains no plan assets, information relative to plan asset required disclosures is not applicable. Additionally, because 2008 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 17 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

#### **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Authority and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated January 1, 2015, the unit credit cost method was used. Because the Authority funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) legally held exclusively for paying the postemployment medical benefits. Actuarial assumptions included an interest rate of 4.0% per annum, healthcare cost trend rates of 10% in 2015, 9% for 2016, 8% for 2017, 7% for 2018, 6% for 2019 and 5% thereafter, and the use of the level dollar amortization method over a 10 year period.

### **NOTE 18 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority self-insures certain risks, for which commercial insurance is not economically available including pollution occurrence, through the Government Self Insurance Fund, an entity which is separate from the Authority. Each participant in the fund contributes to this entity on a self-assessed basis. Currently, the Authority is the only government entity who has elected to become a participant/member of the Government Self Insurance Fund. Contributions are placed into a trust and managed pursuant to a trustee agreement. The available self-insurance coverage was \$3,699,080 and \$3,731,522 at December 31, 2016 and 2015, respectively. The agreement for formation of the fund provides that the fund will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three years. During the years ended December 31, 2016 and 2015, the Authority received reimbursement from the fund for various claims totaling \$49,305 and \$63,893, respectively.

The Authority manages the risks of loss related to workers' compensation, general liability, and fleet operations through participation in a captive insurance program. Under this program, the Authority pays annual premiums to cover expected losses. In the event of adverse loss experience, the Authority may be charged an experience adjustment, and is required to post a letter of credit or provide escrow to secure that commitment. The program also provides for risk-sharing among program participants. As of December 31, 2016, the Authority has not been notified of any experience adjustment or other obligation under the program.

The Authority carries commercial insurance for other risks of loss including fiduciary and director liability, crime and dishonesty, cyber and common forms of property loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the current or prior two fiscal years.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 18 - RISK MANAGEMENT (Continued)**

#### **Health Insurance**

The Authority is a member of the Intergovernmental Insurance Cooperative (IIC) through which it self-insures employee health claims. Claims are administered by a third party. During the years ended December 31, 2016 and 2015, the Authority remitted a contracted monthly amount to IIC, which remitted the funds to the third-party administrator for payment of claims. Under the shared pooling agreement with IIC, if the Authority's claims exceed its contributions during the pool year, no additional payments are due. At the end of the pool's fiscal year, up to 15% of the Authority's excess is allocated to the pool to resolve any deficit of the pool. The Authority was limited in liability for claims to \$45,000 individually and \$1,137,713 in the aggregate. At December 31, 2016, management is not aware of any additional assessments related to the health plan.

### **NOTE 19 - COMMITMENTS and CONTINGENCIES**

#### **Covanta - Lancaster**

The Authority and Covanta Lancaster, Inc. (formerly known as Ogden Martin Systems of Lancaster, Inc.) ("Covanta Lancaster") entered into a design and construction agreement whereby Covanta Lancaster designed, engineered, constructed, and equipped a waste-to-energy facility. The facility achieved acceptance on May 10, 1991.

The Authority and Covanta Lancaster entered into a separate service agreement (the "Service Agreement") whereby Covanta Lancaster is obligated to operate and maintain the waste-to-energy facility for a period of 20 years (with a five-year option) from the "Acceptance Date" (May 10, 1991). The Service Agreement requires that Covanta Lancaster cause the waste-to-energy facility to continually meet certain performance guarantees and specifies various consequences if it does not do so. If the Authority were to default in performance of its obligations under the Service Agreement, such default could cause termination of the Service Agreement and involve other material, adverse consequences. Covanta Energy Corporation (formerly known as Ogden Corporation) guaranteed performance by Covanta Lancaster of its obligations under the Service Agreement.

Effective December 1, 2006, the Authority, with the consent of Covanta Lancaster and the Trustee under the Amended and Restated Trust Indenture dated March 17, 1998, issued an Option Notice and Exercise which exercised the five-year option, thereby extending the term of the Service Agreement until December 31, 2016, and also providing that the Authority maintains the option to extend the Service Agreement for an additional five years after 2016. As part of the assignment and assumption of the Covanta Harrisburg Service Agreement for the Susquehanna Resource Management Complex, the Lancaster Service Agreement was extended so that the termination date of both agreements would be December 31, 2017.

#### **Covanta - Harrisburg**

Commensurate with the purchase of the Susquehanna Resource Management Complex, the Authority entered into a management and professional services agreement with Covanta Harrisburg, Inc. for the operation of the facility for the period from December 23, 2013 through December 31, 2017. The agreement requires that Covanta Harrisburg, Inc. cause the facility to continually meet certain performance standards and specifies various consequences if it does not do so. If the Authority were to default in performance of its obligations under the agreement, such default could cause termination of the agreement and involve other material, adverse consequences.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

#### **Covanta Service Agreements**

The Authority continues to negotiate the option and terms for its SRMC and WTE service agreement renewals that expire on December 31, 2017. The outcome of these negotiations could result in; 1) the Authority internalizing these services (which entails risks associated with the Authority's ability to operate the facilities effectively), 2) renewing with a different service provider (which entail risks associated with a new provider's ability to operate the facilities effectively), 3) renewing these services with Covanta at rates that may impact the Authority's long-term fiscal model.

#### **Metropolitan Edison**

The Authority and Metropolitan Edison Company (Met-Ed) had a twenty-five year agreement in place that required the Lancaster waste-to-energy facility to supply electric energy at rates favorable to recent open market opportunities. This agreement expired on February 1, 2016 and Met-Ed did not elect to renew. Lancaster's waste-to-energy electric previously sold to Met-Ed was sold to the open market through a broker.

#### **Capacity Revenue**

As a baseload electric generator in PJM, the Authority has capacity commitments for both its Waste-to-Energy (WTE) and Susquehanna Resource Management Complex (SRMC) facilities that provide supplemental revenue into the system. PJM ensures long-term grid reliability by procuring the appropriate amount of power supply resources (capacity) needed to meet predicted energy demand three years into the future. As such, capacity represents a commitment of resources to deliver when needed, particularly in case of a grid emergency. If the Authority were to fail to meet its capacity obligations during an emergency event, the capacity revenue would be subject to penalties based on the duration and shortfall specifics of the event.

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

In connection with the acquisition of the Susquehanna Resource Management Complex in 2013, the Authority assumed obligations for disposal and processing of MSW generated in the City of Harrisburg. The agreement between the Authority and the City of Harrisburg is for a term of twenty years, ending in 2033, which term shall extend for a maximum of ten additional years if the County of Dauphin extends waste flow control regulations beyond 2033. The City of Harrisburg shall collect and deliver, or cause to be collected and delivered, all regulated municipal waste, as defined in the agreement, generated within the City of Harrisburg to the Susquehanna Resource Management Complex, and the Authority is obligated during the term to accept, transfer, process or dispose of all such waste. The tipping fee rate charged by the Authority to the City of Harrisburg shall be \$190 per ton through 2018, \$195 per ton in 2019, and shall be adjusted each year thereafter according to the change in the Consumer Price Index. These fees may be increased to accommodate a change in law. If the City of Harrisburg delivers fewer than 35,000 tons of regulated municipal waste to the Susquehanna Resource Management Complex in any calendar year, the City of Harrisburg must pay to the Authority any shortfall in tipping fees as though 35,000 tons had been delivered. If the City delivers greater than 38,000 tons of regulated municipal waste to the Susquehanna Resource Management Complex, the Authority will pay a rebate to the City of Harrisburg of \$100 for each ton delivered in excess of 38,000 tons.

#### **County of Dauphin Cooperation Agreement**

In connection with the acquisition of the Susquehanna Resource Management Complex in 2013, the Authority entered into a cooperation agreement with the County of Dauphin. The cooperation agreement sets limits on the per ton tipping fees that the Authority may charge for MSW generated within the County of Dauphin (except for MSW generated in the City of Harrisburg, which fees are set according to the previous paragraph) as follows: 2013 - \$77.09; 2014 through 2016 - \$80.00; 2017 through 2019 - \$85.00; 2020 - \$90.00. The limit will be adjusted thereafter for changes in the Consumer Price Index. These limits may also be changed to accommodate

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

#### County of Dauphin Cooperation Agreement (Continued)

a change in law. Should the tipping fees on regulated MSW generated in the County of Dauphin not produce annual revenues in the following amounts, the County of Dauphin is required to pay any shortfall to the Authority: 2014 and 2015 - \$10,132,000; 2016 - \$10,932,000; 2017 through 2019 - \$11,615,250; 2020 - \$12,298,500. The minimum annual revenues will be adjusted for changes in the Consumer Price Index each year thereafter.

#### Electric Plant Lease and Related Agreement

Commensurate with the acquisition of the Susquehanna Resource Management Complex in 2013, the Authority entered into an agreement to lease to Columbia Borough, Pennsylvania certain assets of the Susquehanna Resource Management Complex which generate electricity from the steam generated by the mass burn facility (the "Electric Plant") for monthly rental of \$65,000. The term of the lease is for twenty years, expiring in 2033, and automatically renews for additional five-year renewal periods unless otherwise terminated. Pursuant to the term of the lease, the Authority retains the obligations to maintain and repair the Electric Plant, and to pay all taxes, assessments, and similar charges related thereto. In connection with the lease, Columbia Borough pays \$2.07 per 1,000 pounds of steam output of the mass burn facility, and sells the generated electricity to the Commonwealth of Pennsylvania, Department of General Services (DGS). All payments by DGS for electricity so purchased are deposited by a third party energy manager into an escrow account after deducting management fees.

From the escrow account, the following amounts due under the arrangement and related agreements, in order of priority, are paid: (1) payments due to the electric plant operator; (2) \$4,168 per month payable to Columbia Borough; (3) \$65,000 per month plant rent payable to the Authority; and (4) \$2.07 per 1,000 pounds of steam output of mass burn facility used by the Electric Plant. In the event that amounts deposited to the escrow account are insufficient to provide \$50,000 to Columbia Borough in any twelve-month period, the Authority is obligated to pay any shortfall. Amounts due for rent and steam purchases are non-recourse as to Columbia Borough's revenues and assets, except to the extent available in the escrow account. The Authority may terminate this agreement for convenience upon 120 days' notice.

In conjunction with the lease of the Electric Plant, the Authority consented to the provisions of an agreement between Columbia Borough and the DGS for the purchase and sale of approximately 95% of the electricity generated by the Electric Plant, at established prices through 2033. Effective 2024, the Authority may be required to make deposits to a "clawback" account, for the benefit of DGS, in years that the contracted rate for the purchase of electricity exceeds the market rate. The Authority is eligible for credits for years in which the market rate for electricity exceeds the contracted rate, and the Susquehanna Resource Management Complex has produced net income insufficient to provide predetermined debt service coverage.

#### Steam Sale Agreement

On September 20, 2011, the Authority entered into an Option Agreement to sell certain real estate adjacent to the Authority's Conoy Waste-to-Energy Facility to Perdue Grain & Oilseed, LLC. Closing took place on June 22, 2016, and simultaneously with that closing the Authority entered into an Equipment and Facilities Agreement and a Utilities Agreement with Perdue Agribusiness LLC, the successor to Perdue Grain & Oilseed, LLC. Under the Equipment and Facilities Agreement, the Authority is to direct Covanta Lancaster, Inc. to connect the Conoy Waste-to-Energy Facility to the Soybean Processing facility being constructed by Perdue on the adjacent property so that medium pressure steam can be conveyed from the Authority to Perdue. Terms within the Utilities Agreement establish rates for an initial term (ten years) which are accretive to the Authority's existing use and sales opportunities for energies generated by this facility. The Authority, under the September 25, 1987

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

#### Steam Sale Agreement (Continued)

Service Agreement between the Authority and Covanta, has directed Covanta to perform the engineering necessary for a modification of the Service Agreement. The engineering is not yet complete, but when completed, it is anticipated that a modification will be executed and that Perdue will reimburse the Authority for some or all of the modification costs. When the connection is complete, anticipated to be in late 2017, the Authority will provide steam and other utilities to Perdue as provided in the Utilities Agreement. In order to operate the Soybean Facility, Perdue received an air quality permit from DEP as to which an appeal was filed on June 6, 2016. The Authority has intervened in the appeal. No stay has been issued, and Perdue is constructing the Soybean Facility.

#### Ash Recycling Service Agreement, Lease and Improvement Loan

In May 2016, the Authority entered into agreements with Inashco North America Lancaster, LLC (Inashco), whereby the Authority will lease to Inashco a facility site adjacent to the Frey Farm Landfill, and Inashco will construct and operate an ash recycling and processing facility to extract marketable materials from the ash by-product of the Authority's WTE and SRMC facilities. The initial term of the service agreement and lease is ten years, with two five-year renewal terms available. The Authority has covenanted to deliver minimum amounts of ash to the facility during the term of the service agreement, and is subject to penalty for shortfalls. The Authority will earn a service fee for each ton of ash delivered, and a share of net revenue as defined in the agreement. The Authority will provide up to \$11 million to Inashco in the form of an improvement loan toward construction of the ash recycling and processing facility. The loan will be secured by a first lien mortgage on the facility, a letter of credit, and the guaranty of Inashco's parent company. The loan will bear interest at 5%, and will be payable in monthly amounts for ten years starting on the commercial operation date of the facility. The obligations of the Authority under these agreements are subject to the satisfaction or waiver of several conditions precedent, including obtaining the necessary permits for vertical expansion of the Frey Farm Landfill as discussed in Note 23.

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

Landfill closure and post-closure costs are recorded following the provisions of Governmental Accounting Standards Board (GASB) Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs*. The standards require that estimated closure and post-closure care costs be recognized as current operating costs although these costs will not actually be incurred until some future operating cycle.

Estimates of the closure and post-closure care costs are on a current value basis and based upon applicable federal, state, and local laws and regulations approved as of December 31, 2016 and 2015. At each reporting date, the liability recognized is based upon capacity utilized to-date at each site.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

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

Closure tasks are carried on throughout the periods the landfill is accepting wastes; post-closure monitoring and maintenance costs are incurred for thirty years after all closure requirements are approved by a regulatory agency and the facility is no longer accepting wastes. At December 31, 2016, the Authority reports two active sites, Frey Farm Landfill and Susquehanna Resource Management Complex Ashfill, and one closed site, Creswell Landfill. Estimated future closure and post-closure care costs of active sites are as follows at December 31:

	2016	2015
<b>Frey Farm Landfill</b>		
Total Estimated Closure and Post-Closure Costs	17,164,634	18,298,136
Capacity Used at December 31	<u>82.6%</u>	<u>79.0%</u>
Closure and Post-Closure Costs Recognized	14,177,341	14,456,950
Closure and Post Closure Costs Paid To-Date	<u>7,159,572</u>	<u>7,145,448</u>
Net Liability	7,017,769	7,311,502
Closure and Post-Closure Costs Remaining to be Recognized	2,987,289	3,841,186
Date that Capacity will be Reached	2019	2019
	2016	2015
<b>Susquehanna Resource Management Complex Ashfill **</b>		
Total Estimated Closure and Post-Closure Costs	3,204,000	3,233,000
Capacity Used at December 31	<u>86.5%</u>	<u>86.5%</u>
Closure and Post-Closure Costs Recognized	3,204,000	3,233,000
Closure and Post Closure Costs Paid To-Date	<u>-0-</u>	<u>-0-</u>
Net Liability	3,204,000	3,233,000
Closure and Post-Closure Costs Remaining to be Recognized	-0-	-0-
Date that Capacity will be Reached	2018	2018

\*\* The Authority does not intend to fill the remaining capacity at the Susquehanna Resource Management Complex Ashfill, and has therefore recognized 100% of total estimated closure and post-closure costs at December 31, 2016 and 2015. However, the Authority has estimated the date capacity will be reached assuming the ashfill is used for transfer of residue from Susquehanna Resource Management Complex operations.

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

	2016	2015
<b>Creswell Landfill</b>		
Current Portion	137,000	118,000
Long-Term Portion	<u>412,000</u>	<u>474,000</u>
	<b>549,000</b>	<b>592,000</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

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

The estimate of future costs is subject to change for inflation, deflation, changes in technology and federal, state, and local regulations.

The components of closure and post-closure care expense (income) in 2016 and 2015, are as follows:

	2016	2015
<b>Closure and Post-Closure Care</b>		
Frey Farm Landfill		
Capacity Used in Current Year	615,945	644,508
Change in Estimate	(895,555)	(49,820)
	(279,610)	594,688
Susquehanna Resource Management Complex Ashfill		
Change in Estimate	(29,000)	93,000
<b>Post-Closure Care</b>		
Creswell Landfill		
Difference Between Actual and Estimated		
Costs - Current Year	(1,255)	(3,970)
Change in Estimate	<u>75,000</u>	<u>(91,000)</u>
	<u>73,745</u>	<u>(94,970)</u>
	<b>(234,865)</b>	<b>592,718</b>

#### Closure Collateral Funds and Other Commitments

In accordance with rules and regulations of the Pennsylvania Department of Environmental Protection, the Authority is required to provide Collateral Bonds pledged to the Department of Environmental Protection for estimated future closure and post-closure care costs of its landfills and sites. The Authority has satisfied this obligation through irrevocable standby letters of credit issued by a commercial bank to the Pennsylvania Department of Environmental Protection. The Authority also issues letters of credit related to improvement projects pursuant to local regulations. At December 31, 2016, the letters of credit issued totaled \$16,664,714 and are secured by deposits of \$19,657,597 (such deposits are included in the Authority's restricted assets) that are pledged to the financial institution which issued the letters of credit. At December 31, 2016 and 2015, the margined value of collateral pledged and letters of credit amounts are as follows:

	2016	2015
<b>Sites</b>		
Frey Farm Landfill	9,447,860	9,447,860
Susquehanna Resource Management Complex Ashfill	3,202,264	3,202,264
Creswell Landfill	3,102,764	3,102,764
Waste-to-Energy Facility - Lancaster	498,921	498,921
Waste-to-Energy Facility - Dauphin	251,589	251,589
Transfer Station	100,537	100,537
Liquid Treatment Facility	<u>36,179</u>	<u>36,179</u>
Total Closure Collateral	16,640,114	16,640,114
Other	<u>24,600</u>	<u>82,000</u>
	<b>16,664,714</b>	<b>16,722,114</b>

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

#### Other Contingencies

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

#### Permits and Approvals

The Authority obtained special exception approval in June 1986, from the Manor Township Zoning Hearing Board (ZHB), to landfill on the property now known as the Frey Farm Landfill. In connection with that approval, the Manor Township ZHB issued a decision with a series of conditions, which stated, among other items, the Authority, "its successors and assigns shall not (a) expand the Creswell landfill beyond the tract known as the Frey Dairy Farm, (b) construct or operate any other refuse disposal facility within Manor Township, (c) cause any leachate collection or treatment facility to be constructed on any other site within Manor Township or (d) construct and/or operate any facility for the incineration of refuse." The meaning and effect of the Manor Township ZHB decision were clarified by an Agreement with Manor Township (issued in 2002 and amended in 2015) and the PALE Consent Order (issued in 2002 and amended in 2015). Furthermore, the Manor Township Board of Supervisors voted in September 2016 to amend the Manor Township Zoning Ordinance to designate landfills and solid waste processing facilities as uses permitted by right within the Manor Township Excavation Zone. However, the Authority believes the June 1986 Manor Township ZHB decision, the Agreement with Manor Township, the PALE Consent Order, and the September 2016 Manor Township Ordinance may constitute governmental action that is subject to change in the future. Therefore, there is no assurance that future zoning and governmental designations will permit use of the Authority's properties for intended purposes; neither is there assurance the Authority will be able to satisfy whatever governmental, regulatory, or other conditions might be applicable to the Authority's use of the properties for intended purposes.

#### Other Commitments

The Authority has a binding commitment to provide cash donations to the Bainbridge Fire Company during the years 2011 through 2026. The Bainbridge Fire Company provides fire protection services to the Authority's waste-to-energy facility. The amount of the donation is equal to an escalating rate per ton of waste processed at the facility each year. The Authority donated \$36,117 and \$35,749 to the Bainbridge Fire Company pursuant to this commitment during the years ended December 31, 2016 and 2015, respectively.

The Authority had a binding commitment to provide funding to the Susquehanna Heritage Corporation during the years 2010 through 2019. The Susquehanna Heritage Corporation promotes heritage tourism and economic development in portions of York and Lancaster Counties (the Heritage Area). The Authority operates a landfill and waste-to-energy facility located within the Heritage Area. The amount of funding is variable, determined as

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

#### Other Commitments (Continued)

\$0.10 per revenue ton of waste processed at the facilities. The Authority provided \$81,908 and \$81,319 to the Susquehanna Heritage Corporation during the years ended December 31, 2016 and 2015, respectively.

#### Litigation

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

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

#### Unconditional Purchase Obligation

In connection with the Solar Power Purchase Agreements and a Lease with MP2 Capital, LLC (MP2) discussed in Note 5, the Authority has committed to purchase the entire energy output produced by the solar project, at prices specified in the agreements, commencing on the commercial operation date of the project and continuing for twenty years. During the years ended December 31, 2016 and 2015, the Authority purchased \$25,914 and \$26,014, respectively, of energy output of the project. Based upon estimates of the annual production of the projects, and purchase prices ranging from \$0.040 to \$0.225 per kWh as specified in the agreements, the Authority estimates that its future obligation under these agreements is as follows:

	Purchase Obligation	Termination Fee
2017	84,894	2,206,737
2018	84,894	2,079,270
2019	84,894	1,949,234
2020	84,894	1,816,579
2021	84,894	1,681,250
2022 - 2026	541,565	1,543,194 - 962,586
2027 - 2031	658,660	810,049 - 168,583
	<u>1,624,695</u>	

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### NOTE 19 - COMMITMENTS and CONTINGENCIES (Continued)

#### Unconditional Purchase Obligation (Continued)

Actual results may differ from these estimates if the actual annual energy production of the projects differs from the estimated annual energy production. The Authority may terminate the agreement upon six months' written notice and payment of the termination fee above, net of the unpaid balance of the improvement loans discussed in Note 5. At the end of the fifth year following the commercial operation date, and every two years thereafter, the Authority also has the option to purchase the solar project at prices specified in the agreements, net of the unpaid balance of the improvement loans.

#### Open Construction Contract Commitments

At December 31, 2016, the Authority has open construction contract commitments totaling \$4,731,577 for various projects at Authority facilities.

### NOTE 20 - MAJOR CUSTOMERS

Tipping fee revenues include transactions with major customers (customers whose sales comprise 10% or more of total tipping fees) as follows for the years ended December 31, 2016 and 2015:

	<b>2016</b>		<b>2015</b>	
	<b>Sales</b>	<b>Accounts Receivable</b>	<b>Sales</b>	<b>Accounts Receivable</b>
Customer A	8,170,214	647,146	8,464,213	684,186
Customer B	7,616,185	605,025	7,227,216	647,567

Energy revenues include transactions with major customers as follows for the years ended December 31, 2016 and 2015:

	<b>2016</b>		<b>2015</b>	
	<b>Sales</b>	<b>Accounts Receivable</b>	<b>Sales</b>	<b>Accounts Receivable</b>
Customer C	n/a	n/a	12,418,590	2,134,074
Customer D	5,392,378	461,836	5,148,840	462,941
Customer E	6,068,532	700,017	n/a	n/a

n/a: not a major customer

### NOTE 21 - RELATED PARTY TRANSACTIONS

The Authority leases a residential property in East Hempfield Township to its Chief Executive Officer pursuant to a lease executed in May 2014. The initial term of the lease is from November 1, 2014 until five years following the termination of employment of the executive with the Authority. Yearly rental under the lease is \$24,000. Rental revenue recognized by the Authority in both 2016 and 2015, was \$24,000.

# Lancaster County Solid Waste Management Authority

## NOTES to FINANCIAL STATEMENTS

(Continued)

### **NOTE 21 - RELATED PARTY TRANSACTIONS (Continued)**

The Authority's Chief Executive Officer was a board member of Susquehanna Heritage Corporation (SHC) through December 2015. As discussed in Note 19, the Authority has a binding commitment to provide funding to SHC during the years 2010 through 2019. The Authority provided \$81,908 and \$81,319 to the Susquehanna Heritage Corporation during the years ended December 31, 2016 and 2015, respectively.

### **NOTE 22 - RECLASSIFICATIONS**

Certain amounts in the prior periods presented have been reclassified to conform to the current year's presentation. These reclassifications have no effect on previously reported changes in total net position.

### **NOTE 23 - SUBSEQUENT EVENTS**

On January 6, 2017, the Authority was notified that Pennsylvania DEP had completed its environmental assessment of the Authority's application to expand the existing Frey Farm Landfill site vertically, and concluded that the benefit of the project outweighs the harms. DEP technical review of the application is ongoing. If approved, the vertical expansion project would add approximately 18 to 20 years of capacity to the site.

**Lancaster County Solid Waste Management Authority**

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE of FUNDING PROGRESS -  
OTHER POSTEMPLOYMENT BENEFITS (OPEB) -  
POSTRETIREMENT HEALTH CARE BENEFITS PLAN -  
Unaudited

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>
01/01/2008	-0-	591,742	591,742	0.0%
01/01/2009	-0-	823,979	823,979	0.0%
01/01/2012	-0-	1,167,297	1,167,297	0.0%
01/01/2015	-0-	1,213,332	1,213,332	0.0%

See independent auditors' report.

**INDEPENDENT AUDITORS' REPORT on SUPPLEMENTARY INFORMATION**

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

We have audited the financial statements of **Lancaster County Solid Waste Management Authority** as of and for the years ended December 31, 2016 and 2015, and our report thereon dated March 6, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of **Lancaster County Solid Waste Management Authority** as of and for the years ended December 31, 2014, 2013, and 2012. In our reports dated March 7, 2015, February 24, 2014, and February 23, 2013, respectively, we expressed unmodified opinions on those financial statements. Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The schedules of condensed revenues and expenses on page 49 and the concise statements for publication on page 50 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of these basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 49 and 50 is fairly stated, in all material respects, in relation to the basic financial statements from which they have been derived.

March 6, 2017  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*  
TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

# Lancaster County Solid Waste Management Authority

## SCHEDULES of CONDENSED REVENUES and EXPENSES

Years Ended December 31, 2016, 2015, 2014, 2013, and 2012

	2016	2015	2014	2013	2012
<b>OPERATING REVENUES</b>					
Tipping Fees	\$ 61,760,388	\$ 59,545,228	\$ 57,350,288	\$ 36,528,464	\$ 36,739,546
Energy	14,738,431	18,401,006	18,706,329	12,366,845	12,721,735
Transportation and Other	<u>2,439,187</u>	<u>2,745,659</u>	<u>4,362,067</u>	<u>3,312,889</u>	<u>3,460,722</u>
<b>Total Operating Revenues</b>	<b>78,938,006</b>	<b>80,691,893</b>	<b>80,418,684</b>	<b>52,208,198</b>	<b>52,922,003</b>
<b>OPERATING EXPENSES</b>					
Waste-to-Energy Facility	22,476,694	23,230,173	22,476,602	21,586,995	22,066,779
Susq. Resource Mgmt Complex	18,535,832	18,283,527	19,127,931	439,348	-0-
Depreciation and Amortization	13,171,084	12,642,052	12,187,390	7,667,655	7,633,557
Landfills	4,284,513	4,319,801	4,016,806	3,522,988	3,548,224
Transfer Station Complex	3,241,425	3,051,474	3,141,323	3,132,300	3,218,345
Closure and Post-Closure Care	(234,865)	592,718	1,709,978	476,203	2,530
Household Hazardous Waste	<u>475,214</u>	<u>449,586</u>	<u>386,158</u>	<u>341,862</u>	<u>290,841</u>
<b>Total Operating Expenses</b>	<b>61,949,897</b>	<b>62,569,331</b>	<b>63,046,188</b>	<b>37,167,351</b>	<b>36,760,276</b>
<b>SUPPORT EXPENSES</b>	<b><u>11,911,845</u></b>	<b><u>11,065,311</u></b>	<b><u>10,645,333</u></b>	<b><u>14,009,625</u></b>	<b><u>9,631,403</u></b>
<b>Total Operating and Support Expenses</b>	<b><u>73,861,742</u></b>	<b><u>73,634,642</u></b>	<b><u>73,691,521</u></b>	<b><u>51,176,976</u></b>	<b><u>46,391,679</u></b>
<b>OPERATING INCOME</b>	<b>5,076,264</b>	<b>7,057,251</b>	<b>6,727,163</b>	<b>1,031,222</b>	<b>6,530,324</b>
<b>INTEREST and INVESTMENT EARNINGS</b>	<b>673,671</b>	<b>601,975</b>	<b>1,049,363</b>	<b>309,060</b>	<b>1,196,525</b>
<b>INTEREST EXPENSE</b>	<b>(4,769,778)</b>	<b>(5,139,214)</b>	<b>(5,591,063)</b>	<b>(1,538,259)</b>	<b>(1,746,862)</b>
<b>NET OTHER NON-OPERATING REVENUES (EXPENSES)</b>	<b><u>1,660,585</u></b>	<b><u>2,626,575</u></b>	<b><u>(1,883,657)</u></b>	<b><u>6,782,293</u></b>	<b><u>585,889</u></b>
<b>CHANGES in NET POSITION</b>	<b><u>\$ 2,640,742</u></b>	<b><u>\$ 5,146,587</u></b>	<b><u>\$ 301,806</u></b>	<b><u>\$ 6,584,316</u></b>	<b><u>\$ 6,565,876</u></b>

See independent auditors' report on supplementary information.

# Lancaster County Solid Waste Management Authority

## Concise Statements for Publication

### STATEMENTS of NET POSITION

December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Current Assets	\$ 52,251,904	\$ 46,101,376
Restricted Assets	30,351,630	30,015,428
Other Assets	2,778,667	2,785,021
Real Estate, Facilities, and Equipment	<u>229,400,626</u>	<u>236,888,149</u>
<b>TOTAL ASSETS</b>	<b>314,782,827</b>	<b>315,789,974</b>
<b>LIABILITIES and NET ASSETS</b>		
Current Liabilities	14,077,100	12,992,118
Long-Term Liabilities	<u>140,731,293</u>	<u>145,464,164</u>
<b>TOTAL LIABILITIES</b>	<b><u>154,808,393</u></b>	<b><u>158,456,282</u></b>
<b>NET POSITION</b>	<b><u>\$ 159,974,434</u></b>	<b><u>\$ 157,333,692</u></b>

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

Years Ended December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>	<b>\$ 78,938,006</b>	<b>\$ 80,691,893</b>
<b>OPERATING and SUPPORT EXPENSES</b>	<b><u>73,861,742</u></b>	<b><u>73,634,642</u></b>
<b>OPERATING INCOME</b>	<b>5,076,264</b>	<b>7,057,251</b>
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<b><u>(2,435,522)</u></b>	<b><u>(1,910,664)</u></b>
<b>CHANGES in NET POSITION</b>	<b><u>\$ 2,640,742</u></b>	<b><u>\$ 5,146,587</u></b>

See independent auditors' report on supplementary information.