

Lancaster County Solid Waste Management Authority

Years Ended December 31, 2017 and 2016



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Lancaster County Solid Waste Management Authority

Lancaster, Pennsylvania

Years Ended December 31, 2017 and 2016

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Lancaster County Solid Waste Management Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2017 and 2016

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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, 2017 and 2016, 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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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, 2017 and 2016, 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 10 and 46, 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 16, 2018
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, 2017.

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 11 through 15 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 16 through 45 of this report.

SUMMARY

The Authority experienced its 4th consecutive year of volume growth in 2017. This provided simultaneous benefits and challenges through higher revenues and higher capacity utilizations. In addition to strong demand for waste disposal services, the Authority expended considerable efforts to secure future Landfill capacity, improve the effectiveness of its infrastructure, and secure critical customer and vendor agreements for sustainable financial assumptions. By all measurements, the Authority was successful in achieving these objectives. LCSWMA's revenues, operating margins and cash flows exceeded its fiscal targets. An intense year of capital investment was precisely executed. In July of 2017, the Authority received its permit for the Frey Farm Landfill Vertical Expansion as anticipated. And, LCSWMA starts 2018 with improved Hauler and Covanta master service agreement in place.

LCSWMA's capital funding model continues to benefit from a strong economic cycle that is generating robust waste volumes. Higher volumes boosted tipping fees and improved fixed cost absorptions with minimal impact on variable costs. This combination yielded higher cash flows to fund the Authority's 2017 capital expenditures.

The Authority's 2013 acquisition of the Susquehanna Resource Management Complex (SRMC) is providing stable processing capacity as the demand for waste disposal continues to grow in the Central Pennsylvania marketplace.

The Authority began direct thermal energy (steam) deliveries to Perdue's soybean processing facility in culmination of a multiyear partnership development. This partnership included a capital contribution that was a component of LCSWMA's 2017 net asset position improvement. LCSWMA recorded its highest revenues ever in

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

SUMMARY (Continued)

testament to the value of the services and products it reliably provided to its stakeholders. Record revenues and a record operating surplus also reflects favorably on the effectiveness of our people and infrastructure.

Capital expenditures (CAPEX) investments were significant in 2017. Capital spends included functional upgrades and additions, necessary site maintenance and equipment replacements. Ash process modifications and a Perdue steam delivery bridge were completed at the WTE facility. The cooling tower was replaced and ash process modifications were substantially completed at the SRMC facility. Cell capping and stage one construction of the vertical expansion was on going through 2017 at the Frey Farm Landfill.

As part of the Authority's partnership agreement with Perdue Agribusiness, Perdue contributed engineering and construction costs to complete a bridge that will transport thermal energy (steam) from the Authority's WTE facility to the adjacent Perdue soybean process facility (see Note 15 - Steam Sale Agreement). In 2017, LCSWMA exercised its option to assume custody of a solar panel network that generates electricity at its Transfer Station complex. The Authority waived a promissory note obligation issued by MP2 capital partners in exchange for this solar network asset.

The Authority maintains outstanding debt associated with the SRMC asset purchase in December 2013. The Authority's higher operating revenues and annual principal repayments have improved its debt coverage ratio.

Financial results exceeded both budgeted expectations and prior year performances. Overall operating revenue totaled \$83,284,022 for the year. Operating income grew 33% to \$6,750,247. The Authority received a total of 986,546 tons of waste, including recycling material. This represented a 2.8% increase over 2016.

FINANCIAL REVIEW

The Authority strengthened its balance sheet position in 2017. Its overall net position grew 5.2% to \$168,282,620. Overall assets increased by \$3,107,297 from strong operating surpluses and a capital contribution. Total debt (current and long-term) was reduced by \$4,025,000 to a principal balance of \$121,440,000 at December 31, 2017.

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 \$34,404,554 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.

CAPEX investments totaled \$22,521,478 while asset sales provided \$760,453 in proceeds. CAPEX was funded by operating cash and withdraws from designated capital reserves.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL REVIEW (Continued)

	Net Position	
	2017	2016
Current and Other Assets	78,763,782	85,382,201
Capital Assets	<u>239,126,342</u>	<u>229,400,626</u>
TOTAL ASSETS	317,890,124	314,782,827
Long-Term Liabilities Outstanding	125,023,066	130,097,524
Landfill Closure and Post-Closure Costs (Current and Long-Term)	9,206,556	10,770,769
Other Liabilities	<u>15,377,882</u>	<u>13,940,100</u>
TOTAL LIABILITIES	149,607,504	154,808,393
Net Investment in Capital Assets	121,373,738	107,075,644
Restricted	10,498,152	9,208,880
Unrestricted	<u>36,410,730</u>	<u>43,689,910</u>
TOTAL NET POSITION	168,282,620	159,974,434

The Authority's net position increased by \$8,308,186 during the year. Operating income increased to \$6,750,247 compared with 2016's operating income of \$5,076,264. Net non-operating expenses of \$4,689,266 were recorded in 2017.

Total operating revenues of \$83,284,022 increased by \$4,346,016 (5.5%) from 2016. Tipping fees and energy sales accounted for 96% of operating revenue. Tipping fee revenue increased by \$3,963,629 (6.5%) compared to 2016 on higher system average pricing and higher contract refuse and C&D tonnages. The Authority successfully reduced its lower value waste streams to improve its system average rate per ton by 3.6%. Energy revenue was down \$329,422 (2.3%) from 2016 due to scheduled turbine maintenance projects in the current year. Other operating revenues, consisting mostly of revenue received on the sale of recovered metal from processed waste, increased \$608,700 (68.5%) reflecting higher global demand and market price recovery that started in Q4 of 2016.

Total operating and support expenses, excluding depreciation, were \$62,870,858; up 3.7% from 2016. 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 \$190,785 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 2017.

Depreciation expense of \$13,662,917 was up 3.4% from 2016 reflecting additional assets capitalized and placed into service in 2017.

General and administrative costs were up 5.5% relative to 2016 and include volume based customer rebates.

Net non-operating expenses were \$4,689,266 consisting of interest expense on debt less investment earnings, net gains on asset sales, and other non-operating revenue sources. Investment earnings were \$718,542 as compared to 2016 earnings of \$673,671. This increase reflects an improving interest rate environment and deferred principal withdraws throughout the year as higher operating cash flows provided additional capital expenditure contributions. Overall, yields continued to lag behind market expectations for short and midterm rates in 2017.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL REVIEW (Continued)

The Authority incurred a \$472,609 charge on the default of a promissory note issued to finance the construction costs a solar panel network. The Authority also wrote off residual balances on replaced equipment totaling \$993,681.

	Change in Net Position	
	2017	2016
Revenues:		
Tipping Fees	65,724,017	61,760,388
Energy	14,409,009	14,738,431
Transportation	1,653,075	1,549,966
Other Revenues	<u>1,497,921</u>	<u>889,221</u>
TOTAL OPERATING REVENUE	83,284,022	78,938,006
Expenses:		
Operating Expenses, Excluding Depreciation	50,366,468	48,778,813
Support Expenses, Excluding Depreciation	12,504,390	11,862,224
Depreciation Expense	<u>13,662,917</u>	<u>13,220,705</u>
TOTAL OPERATING and SUPPORT EXPENSES	76,533,775	73,861,742
Investment Earnings	718,542	673,671
Interest Expense	(4,681,613)	(4,769,778)
Gain (Loss) on Asset Disposals	(993,681)	1,058,174
Other Non-Operating Revenue	<u>267,486</u>	<u>602,411</u>
NET NON-OPERATING REVENUE (EXPENSE)	(4,689,266)	(2,435,522)
CAPITAL CONTRIBUTIONS	<u>6,247,205</u>	<u>-0-</u>
INCREASE in NET POSITION	8,308,186	2,640,742
Net Position - January 1	<u>159,974,434</u>	<u>157,333,692</u>
NET POSITION - DECEMBER 31	168,282,620	159,974,434

CAPITAL ASSETS, DEBT ADMINISTRATION, and LONG-TERM OBLIGATIONS

Capital Assets

The Authority invested \$22,521,478 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 2017. Planned upgrades to SRMC's waste-to-energy facility and general improvements to the site's infrastructure accounted for 23% of total CAPEX. Continued planning and design work for the Frey Farm Vertical Expansion accounted for 43%, and ash process modifications at the WTE Facility accounted for 11%. Purchases of transportation and other operating equipment represented 19% of CAPEX, comprised of heavy equipment, and new transfer trailers scheduled within the Authority's asset replacement cycle. The balance of CAPEX was for operations equipment and general site improvements.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

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

Capital Assets (Continued)

Proceeds from property and equipment sales were \$760,453. Total depreciation expense for 2017 was \$13,662,917. A comparison of capital assets as of December 31, 2017 and December 31, 2016, is shown below.

	Capital Assets	
	2017	2016
Susquehanna Resource Management Complex (SRMC)	114,679,464	114,184,600
Waste-to-Energy Facility	41,767,378	37,367,219
Landfill Facility	27,658,080	27,976,776
Transfer Station Complex	18,671,248	17,689,721
Support Facilities	6,926,527	7,243,510
Other Real Estate	6,369,448	6,848,420
Equipment	9,657,428	8,089,570
Administrative Building and Equipment	1,096,628	1,242,734
Construction in Progress	<u>12,300,141</u>	<u>8,758,076</u>
TOTAL CAPITAL ASSETS	239,126,342	229,400,626

Additional information on the Authority's capital assets can be found in Notes 5 and 6 of the financial statements.

Debt Administration and Long-Term Obligations

At December 31, 2017, the Authority had \$121,440,000 of outstanding bond principal liability associated with the acquisition of the SRMC assets on December 23, 2013. Principal payments of \$4,025,000 were made in 2017 (see Note 9). 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 \$9,206,556 for these activities.

REVIEW of 2017 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 2017, the System received 986,546 tons of waste which includes refuse, construction and demolition (C&D), residual and recyclable material. This represented a 2.8% increase over 2016. The TSC received 358,943 tons of waste which was then transferred to the WTE facility, FFLF, SRMC or several privately owned and operated recycling facilities. WTE received 390,486 tons of waste either delivered directly to the facility or transferred in from the TSC or SRMC, while the FFLF received 450,540 tons of waste either delivered directly to the landfill or transferred in from the TSC, WTE or SRMC. There were 315,733 tons of waste received at SRMC. 80% of C&D waste received at SRMC was transferred to the FFLF. All sites met the Authority's expectation for availability and overall operating performance.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

REVIEW of 2017 BUSINESS (Continued)

Facilities and Operations (Continued)

The WTE facility processed 390,554 tons of waste to generate 201.4 M kWh of electricity and 3.6 M kWh equivalent of steam for Perdue consumption. 194.5 M kWh of electricity generated at WTE was sold to the PJM (Pennsylvania, Jersey, Maryland) grid at an average rate of \$.026 / kWh. 6.92 M kWh of electricity was also sold through forward contracts to TransAlta at an average rate of \$.036 / kWh. In 2017, the WTE facility began direct steam deliveries to Perdue's soybean process facility that realized an average rate of \$.078 / kWh. In exchange for an obligation to provide electricity to the PJM grid during periods of need, LCSWMA's WTE facility recognized \$1,234,749 in capacity commitment revenue. WTE's renewable energy credits (RECs) totaled \$1,519,981. The SRMC facility processed 282,030 tons of waste generating 116.1 M kWh of electricity, 90% of which was sold under contract to the Commonwealth of Pennsylvania's Department of General Services (DGS) at a rate of \$.046/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 \$376,546 of revenue, and RECs generating another \$563,997.

Operating Revenue

The Authority's integrated waste disposal and processing system provided sufficient capacity to take delivery of 986,546 tons of waste material which provides tipping revenue for the system. About 68% of the total waste volume delivered to the Authority was processed at one of the two waste-to-energy facilities generating steam and electricity to be sold. The revenue from the sale of electric and thermal energy, in addition to energy products such as RECs and capacity, were sold through a combination of specified contracts, forward contracts and open market. The combined revenue from tipping fees earned for the disposal of waste and energy related products account for approximately 96% of 2017's operating revenue.

The Authority earned \$65,724,017 in tipping revenue in 2017 (79% of the total operating revenue). Refuse and C&D (referred to as municipal solid waste - MSW) comprised 83% of the tipping revenue and 75% of the total tons received. Residual waste streams accounted for 16% of overall system tipping revenue and 23% 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 \$14,409,009 in 2017 (17% of all operating revenue). Direct energy products include electricity and thermal energy (steam) sold for consumption. Direct energy products accounted for 3/4 of energy related revenues. 72% was derived from the production and sale of electricity at both the WTE and SRMC plants and an additional 2% from steam sold to Perdue. Indirect energy products include Capacity and REC's. Capacity revenues accounted for 11% of the energy category totaling \$1,603,318 in 2017. REC revenues are credits obtained for generating electricity. These credits are contracted to pay a fixed price for a maximum amount of RECs produced monthly. The current contract runs through May 31, 2018, and includes annual increases to the price paid for RECs produced. In 2017, REC revenue totaled \$2,083,987 (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 \$75,165 in revenue.

Transportation revenues of \$1,653,075 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 waste ash. Metal and recyclable materials prices trended higher in 2017 boosting revenues 44% to \$1,155,598 and 17% to \$272,796 respectively. The Authority operates a compressed natural gas (CNG) refilling station which generated \$70k in revenues in 2017.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

BUSINESS OUTLOOK

The waste sector continues to thrive on record level economic activity that continues to boost both waste volumes and disposal prices. LCSWMA anticipates record and near record waste volumes in 2018 and believes it is well-positioned to meet this need. High waste volumes will improve fixed cost absorptions and provide flexibility to further reduce lower priced waste streams. Record economic activity levels have not translated to higher energy pricing in the near term. Energy pricing is largely believed to have bottomed out, and although the Authority is not dependent on a price recovery, the long-term energy sector pricing outlook is finally improving. Additionally, LCSWMA's energy revenues are already improving on direct sales of thermal energy (steam) to Perdue (2018 being the 1st full year of a multiyear agreement for over \$3.5M annually) (see Note 15 referencing "Perdue"). The Authority is pursuing similar direct energy sale opportunities for its WTE facility to further reduce its exposure to volatility associated with open market electricity sales.

Improved metals pricing is boosting the Authority's existing other operating revenues heading into 2018 and LCSWMA is positioned to further leverage metal values through a dedicated MRF being constructed adjacent to the Frey Farm Landfill. This MRF will recover valuable fine particle metals from the Authority's existing ash stream and provide an additional revenue stream beginning in 2018 (see Note 15 referencing "Inashco").

Additional opportunities associated with energy products, material recoveries and resource development are continuously evaluated internally and jointly with LCSWMA's extended industry and community partner network.

LCSWMA's business fundamentals remain solid. The Authority's investments in its infrastructure, equipment, and technologies continue to reflect favorably on both operational consistency and operating costs. The SRMC acquisition is proving to be accretive to LCSWMA. The SRMC provides additional process flexibility that helps stabilize operations when waste volumes are high. It is contributing consistent tipping and energy revenues for the Authority.

LCSWMA begins 2018 with a new Covanta service agreement. The Authority negotiated favorable terms with subsidiaries of Covanta Holdings to operate and maintain the WTE and SRMC facilities through 2032. The new agreement reflects a partnership by aligning mutually beneficial outcomes through revenue share and performance incentives. The Authority will benefit from base fee reductions and reduced cost escalations over the next 15 years while leveraging the expertise of an industry leader (see Note 15 referencing "Covanta Master Service Agreement").

LCSWMA was permitted to construct the Frey Farm Vertical Expansion in 2017. This expansion is expected to add 18 years of disposal capacity integral to the Authority's sustainable waste plan. The Authority has outlined its capacity planning assumptions in further detail within a "Strategic Plan" approved by its Board of Directors in December 2017 and accessible at LCSWMA.org. Certain appeals of expansion permits have been filed which the Authority is vigorously defending (see Note 15 referencing the "Frey Farm Vertical Expansion").

Under the direction of the CEO and Board of Directors, LCSWMA's Executive Management Team continues to be aligned to meet the Authority's evolving needs. The CEO, Jim Warner, announced his intention to retire at the end of 2018 and together, the CEO and Board of Directors have laid the foundation for a smooth and orderly transition.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

BUSINESS OUTLOOK (Continued)

The Authority successfully renewed its customer "Hauler Agreements" that expired on 12/31/2017. The renewed agreements stipulate private hauler delivery of refuse and C&D wastes generated in Lancaster County to the Authority over the next five years in exchange for rebate incentives. This renewal ensures the bulk 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 long term contractual partnership with Perdue ensures steady steam revenues for the WTE while the Authority contracted with TransAlta energy brokerage to leverage future contracts to hedge against open market rate fluctuations.

Capital Expenses and Reserve Management

The Authority anticipated necessary CAPEX spends to exceed free cash flows from operations in 2017 and 2018 as several infrastructure projects were simultaneously undertaken. The largest being the Frey Farm Vertical Expansion, comprising almost half of these investments. Strong operating revenues and disciplined cost management is improving free cash flows and supporting higher CAPEX funding. As a result, LCSWMA starts 2018 with more of its capital reserve intact and LCSWMA expects to cover over 75% of its 2018 CAPEX (\$18,636,000) through free cash flows allowing the Authority to begin 2019 with an exceptionally stronger balance sheet profile. Thereafter, the Authority will return to a normalized capital investment cycle and strong operating surpluses will replenish its reserve funds at an accelerated rate.

REQUESTS for INFORMATION

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

Lancaster County Solid Waste Management Authority

STATEMENTS of NET POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,394,582	\$ 10,117,237
Investments	30,198,138	32,530,344
Accounts Receivable, net of Provision for Bad Debts of \$10,000 at 2017 and 2016	11,042,953	8,864,606
Grants Receivable, Current Portion	200,000	317,476
Notes Receivable, Current Portion	6,643	6,354
Interest Receivable	172,179	194,284
Inventory	18,271	26,248
Prepaid Assets	240,843	195,355
Total Current Assets	48,273,609	52,251,904
RESTRICTED ASSETS		
Investments with Trustee (Note 3)	9,023,653	9,021,940
Interest Receivable	193	41
Total Restricted Assets with Trustee	9,023,846	9,021,981
Escrow Deposits	1,683,412	1,672,052
Closure and Post-Closure Care Funds	19,371,296	19,657,597
Total Restricted Assets	30,078,554	30,351,630
OTHER ASSETS		
Grant Receivable, net of Current Portion	-0-	199,166
Notes Receivable, net of Current Portion (Note 4)	335,119	2,548,501
Deposit on Real Estate	45,500	-0-
Other - Raffles Insurance, Ltd.	31,000	31,000
Total Other Assets	411,619	2,778,667
REAL ESTATE, FACILITIES, and EQUIPMENT (Note 5)		
Waste-to-Energy Facility	147,371,588	139,051,088
Susquehanna Resource Management Complex	132,489,049	127,557,896
Landfill Facility	87,710,723	87,160,387
Transfer Station Complex	26,210,158	24,550,940
Equipment	21,362,839	20,003,982
Support Facilities	9,887,428	9,868,901
Other Real Estate	8,622,951	8,886,177
Administrative Building and Equipment	4,051,048	4,065,441
	437,705,784	421,144,812
Accumulated Depreciation	(210,879,583)	(200,502,262)
Net Depreciable Assets	226,826,201	220,642,550
Construction in Progress (Note 6)	12,300,141	8,758,076
Net Real Estate, Facilities, and Equipment	239,126,342	229,400,626
TOTAL ASSETS	\$ 317,890,124	\$ 314,782,827

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of NET POSITION

(Continued)

December 31, 2017 and 2016

	2017	2016
LIABILITIES and NET POSITION		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt (Note 9)	\$ 4,125,000	\$ 4,025,000
Current Portion of Estimated Post-Closure Care Costs	144,000	137,000
Accounts Payable - Trade	5,977,559	5,724,908
Prepaid Disposal Fees	988,872	960,316
Accrued Expenses (Note 8)	4,286,451	3,229,876
Total Current Liabilities	15,521,882	14,077,100
LONG-TERM LIABILITIES		
Long-Term Debt, net of Current Portion (Note 9)	122,651,450	127,321,963
Estimated Closure and Post-Closure Care Liability, net of Current Portion	9,062,556	10,633,769
Other Long-Term Liabilities (Note 10)	2,371,616	2,775,561
Total Long-Term Liabilities	134,085,622	140,731,293
TOTAL LIABILITIES	149,607,504	154,808,393
NET POSITION (Note 11)		
Net Investment in Capital Assets	121,373,738	107,075,644
Restricted	10,498,152	9,208,880
Unrestricted	36,410,730	43,689,910
TOTAL NET POSITION	\$ 168,282,620	\$ 159,974,434

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET POSITION

Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Tipping Fees	\$ 65,724,017	\$ 61,760,388
Energy	14,409,009	14,738,431
Transportation	1,653,075	1,549,966
Other	<u>1,497,921</u>	<u>889,221</u>
Total Operating Revenues	83,284,022	78,938,006
OPERATING EXPENSES		
Waste-to-Energy Facility	22,723,842	22,476,694
Susquehanna Resource Management Complex	18,630,613	18,535,832
Depreciation	13,609,605	13,171,084
Landfills	4,553,918	4,284,513
Transfer Station Complex	3,765,041	3,241,425
Closure and Post-Closure Care	190,785	(234,865)
Household Hazardous Waste	<u>502,269</u>	<u>475,214</u>
Total Operating Expenses	63,976,073	61,949,897
SUPPORT EXPENSES		
General and Administrative	12,504,390	11,862,224
Depreciation	<u>53,312</u>	<u>49,621</u>
Total Support Expenses	12,557,702	11,911,845
Total Operating and Support Expenses	76,533,775	73,861,742
OPERATING INCOME	6,750,247	5,076,264
NONOPERATING REVENUES (EXPENSES)		
Grant Revenues	201,718	177,236
Gain (Loss) on Disposal of Assets	(993,681)	1,058,174
Miscellaneous	538,377	425,175
Bad Debt Expense/Defaulted Note Receivable	(472,609)	-0-
Interest and Investment Earnings	718,542	673,671
Interest Expense	<u>(4,681,613)</u>	<u>(4,769,778)</u>
Net Nonoperating Expenses	(4,689,266)	(2,435,522)
CHANGES in NET POSITION		
Before CAPITAL CONTRIBUTIONS	2,060,981	2,640,742
CAPITAL CONTRIBUTIONS (Note 15)	6,247,205	-0-
CHANGES in NET POSITION	8,308,186	2,640,742
NET POSITION		
Beginning of Year	<u>159,974,434</u>	<u>157,333,692</u>
End of Year	<u>\$ 168,282,620</u>	<u>\$ 159,974,434</u>

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 81,672,608	\$ 80,927,476
Payments to Suppliers	(56,002,024)	(53,870,360)
Payments to Employees	<u>(7,771,006)</u>	<u>(6,213,317)</u>
Net Cash Provided by Operating Activities	17,899,578	20,843,799
CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES		
State and Local Grant Income	518,360	675,037
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Interest Paid	(5,231,537)	(5,329,662)
Principal Payments	(4,025,000)	(3,925,000)
Payments for Capital Acquisitions	(23,212,737)	(6,289,629)
Proceeds from Capital Contributions	6,247,205	-0-
Proceeds from Sale of Capital Assets	<u>760,453</u>	<u>2,679,620</u>
Net Cash Used by Capital and Related Financing Activities	(25,461,616)	(12,864,671)
CASH FLOWS from INVESTING ACTIVITIES		
Deposits Made for Escrow Funds	(11,360)	(22,368)
Principal Payments Received on Notes Receivable	6,356	6,074
Sales of Restricted Investments	33,440,042	36,513,400
Purchases of Restricted Investments	(33,288,783)	(36,963,811)
Receipts of Interest	1,010,088	960,610
Sales of Unrestricted Investments	11,054,394	19,075,665
Purchases of Unrestricted Investments	<u>(8,889,714)</u>	<u>(25,201,470)</u>
Net Cash Provided (Used) by Investing Activities	<u>3,321,023</u>	<u>(5,631,900)</u>
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	(3,722,655)	3,022,265
CASH and CASH EQUIVALENTS		
Beginning	<u>10,117,237</u>	<u>7,094,972</u>
Ending	<u>\$ 6,394,582</u>	<u>\$ 10,117,237</u>

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

(Continued)

Years Ended December 31, 2017 and 2016

	2017	2016
RECONCILIATION of OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Operating Income	\$ 6,750,247	\$ 5,076,264
ADJUSTMENTS to RECONCILE OPERATING INCOME		
to NET CASH PROVIDED by OPERATING ACTIVITIES		
Depreciation	13,662,917	13,220,705
Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Position Included for Cash Flow	538,377	425,175
(Increase) Decrease in:		
Accounts Receivable	(2,178,347)	1,532,621
Inventory and Other Current Assets	(37,511)	817,038
Increase (Decrease) in:		
Current Liabilities	728,108	137,729
Estimated Closure and Post-Closure Care Costs	<u>(1,564,213)</u>	<u>(365,733)</u>
Total Adjustments	<u>11,149,331</u>	<u>15,767,535</u>
Net Cash Provided by Operating Activities	<u>\$ 17,899,578</u>	<u>\$ 20,843,799</u>

SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION

Defaulted Note and Accrued Interest Receivable	2,237,999	-0-
Seizure of Collateral on MP2 Note	1,765,390	-0-
Change in Market Value of Investments - Restricted	(133,329)	(136,569)
Change in Market Value of Investments - Unrestricted	(167,526)	(171,717)

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. MSW generated in Swatara Township and Highspire Borough was included on and after 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 Non-substantial 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 15, and as a condition of participation in a captive insurance program.

Closure and Post-Closure Care 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.

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, 2017 and 2016, was \$13,662,917 and \$13,220,705, respectively.

Deposits on real estate were \$45,500 at December 31, 2017.

Construction in progress are costs assigned which represent capital improvements uncompleted at year end at various sites.

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, valuation of receivables, 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 investment 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 2017

During the current year, the Authority adopted GASB 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 Authority's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the Authority adopted GASB 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 Authority's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the Authority adopted GASB 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 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 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.

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)

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.

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, 2017, \$3,122,683 of the Authority's bank balance of \$11,632,089 was exposed to 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. Cash and cash equivalents exposed to credit risk were as follows at December 31, 2017 and 2016:

	2017	2016
Uninsured and Uncollateralized	-0-	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-	-0-
Uninsured and Collateral Held by the Pledging Financial Institution's Trust Department not in the Authority's Name	<u>3,122,683</u>	<u>9,134,295</u>
	3,122,683	9,134,295

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Reconciliation of Cash and Cash Equivalents to the Financial Statements

	2017	2016
Uninsured Amount Above	3,122,683	9,134,295
Plus: Insured Amount	<u>8,509,406</u>	<u>9,189,920</u>
Bank Balance	11,632,089	18,324,215
Deposits in Transit	5,952	21,096
Outstanding Checks	<u>(448,249)</u>	<u>(371,663)</u>
Carrying Amount - Bank Balances	11,189,792	17,973,648
Petty Cash	3,650	3,400
Money Market Funds and Commercial Paper		
Classified as Cash Equivalents	5,143,958	2,732,797
Escrow Deposits in Restricted Assets	(1,683,412)	(1,652,688)
Certificates of Deposit Classified as Investments	<u>(8,259,406)</u>	<u>(8,939,920)</u>
Total Cash and Cash Equivalents		
Per Financial Statements	6,394,582	10,117,237

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.

Investments' fair value measurements are as follows at December 31, 2017 and 2016:

	Recorded Value	Fair Value Measurements Using			Maturity
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Investments Recorded at Fair Value:					
Tax Exempt Municipal Bonds	99,751		99,751		< 1 Year
U.S. Agency Securities	3,381,802		3,381,802		< 1 Year
	7,794,414		7,794,414		1 - 5 Years
	923,366		923,366		6 - 10 Years
	2,714,838		2,714,838		> 10 Years
U.S. Treasury Securities	5,766,234		5,766,234		< 1 Year
	21,694,421		21,694,421		1 - 5 Years
	6,124,100		6,124,100		6 - 10 Years
Money Market Mutual Funds	6,530,493	6,530,493			
Commercial Paper	<u>569,541</u>	<u> </u>	<u>569,541</u>	<u> </u>	< 1 Year
Total Investments at Fair Value	55,598,960	6,530,493	49,068,467	-0-	

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Investments (Continued)

Investments	2016				Maturity
	Recorded Value	Fair Value Measurements Using			
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Investments Recorded at Fair Value:					
Tax Exempt 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 Mutual Funds	2,126,553	2,126,553			
Commercial Paper	<u>4,026,927</u>	<u> </u>	<u>4,026,927</u>	<u> </u>	< 1 Year
Total Investments at Fair Value	55,123,195	2,126,553	52,996,642	-0-	

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, 2017 and 2016, the Authority's investments were rated as:

	2017		
	AAA	AA	A
Tax Exempt Municipal Bonds		99,751	
U.S. Agency Securities	14,814,420		
U.S. Treasury Securities	33,584,755		
Money Market Mutual Funds	6,530,493		
Commercial Paper	<u> </u>	<u> </u>	<u>569,541</u>
	54,929,668	99,751	569,541

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Investments (Continued)

	2016		
	AAA	AA	A
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>
	53,632,268	679,919	811,008

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 7.2% and 5.8% 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, 2017 and 2016, none of the Authority's investments were exposed to custodial credit risk.

Reconciliation of Investments to Financial Statements

	2017	2016
Total Investments Per Footnotes	55,598,960	55,123,195
Less: Money Market Funds/Commercial Paper	(5,143,958)	(2,732,797)
Less: Investments in Escrow Deposits	(121,321)	(120,437)
Add: Certificates of Deposit	<u>8,259,406</u>	<u>8,939,920</u>
Total Investments per Financial Statements	58,593,087	61,209,881

The following schedule summarizes investments and their classifications in the statements of net position at December 31, 2017 and 2016:

	2017	2016
Unrestricted Assets:		
Investments	30,198,138	32,530,344
Restricted Assets:		
Investments with Trustee	9,023,653	9,021,940
Closure and Post-Closure Care Funds	<u>19,371,296</u>	<u>19,657,597</u>
	58,593,087	61,209,881

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 3 - INVESTMENTS 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, 2017 and 2016, and are classified as restricted assets in the accompanying statements of net position:

	2017	2016
Debt Service Reserve Funds	9,023,653	9,021,940

NOTE 4 - 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 is due 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. During 2017, MP2 was in default and the remaining balance due on the note was written off as uncollectible. The total amount written off on the note was \$2,237,999 which includes \$31,262 of accrued interest. The net amount of \$472,609, shown as bad debt expense/defaulted note receivable in the statements of revenues, expenses and changes in net position for the year ended December 31, 2017, is net of \$1,765,390 of collateral which reverted to the Authority.

Notes receivable balances at December 31, 2017 and 2016, are summarized as follows:

December 31, 2017			
	Current Portion	Long-Term Portion	Total
Mortgage Note Receivable	6,643	335,119	341,762
December 31, 2016			
	Current Portion	Long-Term Portion	Total
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>
	6,354	2,548,501	2,554,855

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 5 - REAL ESTATE, FACILITIES, and EQUIPMENT - CAPITAL ASSETS

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

	Balance January 1, 2017	Additions	Deletions/ Transfers	Balance December 31, 2017
Capital Assets not Being Depreciated:				
Land and Improvements	23,039,656			23,039,656
Construction in Progress	<u>8,758,076</u>	<u>6,656,098</u>	<u>(3,114,033)</u>	<u>12,300,141</u>
Total Capital Assets not Being Depreciated	31,797,732	6,656,098	(3,114,033)	35,339,797
Capital Assets Being Depreciated:				
Waste-to-Energy Facility	137,494,683	8,320,683	(184)	145,815,182
Accumulated Depreciation	(102,710,179)	(4,066,641)	146,299	(106,630,521)
Susquehanna Resource Management Complex	127,557,896	4,572,833	358,320	132,489,049
Accumulated Depreciation	(13,373,296)	(5,116,035)	679,746	(17,809,585)
Landfill Facility	67,037,250	550,337		67,587,587
Accumulated Depreciation	(59,183,613)	(869,029)		(60,052,642)
Transfer Station Complex	24,527,532	1,814,476	(155,256)	26,186,752
Accumulated Depreciation	(6,861,216)	(824,749)	147,056	(7,538,909)
Equipment	20,003,982	3,608,928	(2,250,071)	21,362,839
Accumulated Depreciation	(11,914,412)	(2,026,111)	2,235,112	(11,705,411)
Support Facilities	9,868,901	18,527		9,887,428
Accumulated Depreciation	(2,625,391)	(335,511)		(2,960,902)
Other Real Estate	7,632,470	30,291	(293,516)	7,369,245
Accumulated Depreciation	(1,011,447)	(225,538)	9,792	(1,227,193)
Administrative Building and Equipment	3,982,442	63,338	(77,734)	3,968,046
Accumulated Depreciation	<u>(2,822,708)</u>	<u>(199,303)</u>	<u>67,591</u>	<u>(2,954,420)</u>
Capital Assets Being Depreciated, net	<u>197,602,894</u>	<u>5,316,496</u>	<u>867,155</u>	<u>203,786,545</u>
Capital Assets, net	229,400,626	11,972,594	(2,246,878)	239,126,342

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 6 - CONSTRUCTION in PROGRESS

The Authority has uncompleted projects shown as follows:

Description	Balance January 1, 2017	Cost of Construction	Expense/ Transfer to Capital Assets	Balance December 31, 2017
Landfill Facility	5,454,985	4,418,744	(20,014)	9,853,715
Waste-to-Energy Facility	312,161	54,748	(312,161)	54,748
Susquehanna Resource Management Complex	2,990,930	1,812,728	(2,781,858)	2,021,800
Transfer Station Complex	<u>-0-</u>	<u>369,878</u>	<u>-0-</u>	<u>369,878</u>
	8,758,076	6,656,098	(3,114,033)	12,300,141

Construction in progress relates to future landfill development associated with vertical expansion of the Frey Farm Landfill and improvement projects at the Susquehanna Resource Management Complex and Lancaster facilities. To date, the Authority has accumulated \$7.4 million in development costs associated with its landfill vertical expansion that was permitted in July of 2017. As described in Note 15, an appeal to the permit was filed in August. Existing and ongoing development costs could be impaired should the appeal be successful in delaying the vertical expansion.

NOTE 7 - 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 thirteen of the twenty-two properties, net of costs, for \$1,915,346. Those thirteen properties were purchased by the Authority for \$2,096,731. 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.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 8 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2017 and 2016:

	2017	2016
Accrued Host Fees	235,542	295,440
Accrued DEP Recycling Fees	764,826	656,159
Accrued County Closure Fee	29,793	24,743
Accrued Haulers Rebate	993,443	1,025,760
Accrued Prepaid Rebate	59,346	54,390
Accrued Payroll	613,556	487,003
Current Portion of Nonqualified Deferred Compensation Plan Obligation	643,246	-0-
Payroll Taxes and Pension Plan Accrued and Withheld	207,761	70,829
Accrued Interest	266,999	271,410
Miscellaneous Accruals	<u>471,939</u>	<u>344,142</u>
	4,286,451	3,229,876

NOTE 9 - LONG-TERM DEBT

Long-term debt at December 31, 2017, is summarized as follows:

\$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 and are interest only for the twenty year term. 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. At the end of twenty years the Authority has the option to repay the bonds or to convey the Susquehanna Resource Management Complex to Dauphin County, in which case the County must repay the bonds.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

Long-term debt consists of the following at December 31, 2017:

	2013 A Series	2013 B Series	Total
Principal Amount Due	97,440,000	24,000,000	121,440,000
Less: Current Portion	<u>4,125,000</u>	<u>-0-</u>	<u>4,125,000</u>
Long-Term Principal Due	93,315,000	24,000,000	117,315,000
Original Issue Premiums, Net of Accumulated Amortization			<u>5,336,450</u>
Long-Term Debt, net of Current Portion			122,651,450

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	97,440,000	24,000,000	121,440,000
Original Issue Premiums, Net of Accumulated Amortization			<u>5,881,963</u>
Long-Term Debt, net of Current Portion			127,321,963

The following is a summary of the Authority's long-term debt transactions for the years ended December 31, 2017 and 2016:

	2017	2016
Debt Outstanding - January 1	125,465,000	129,390,000
New Debt Issuance	-0-	-0-
Repayments	<u>(4,025,000)</u>	<u>(3,925,000)</u>
Debt Outstanding - December 31	121,440,000	125,465,000

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

The annual debt service requirements for all outstanding debt as of December 31, 2017, are as follows:

Year	Principal	Interest	Dauphin County Reimbursement **	Net
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	5,015,000	5,201,913	(960,000)	9,256,913
2023 - 2027	29,030,000	22,049,077	(4,800,000)	46,279,077
2028 - 2032	37,010,000	14,071,477	(4,800,000)	46,281,477
2033	<u>32,605,000</u>	<u>1,608,738</u>	<u>(960,000)</u>	<u>33,253,738</u>
	121,440,000	66,015,607	(15,360,000)	172,095,607

** 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.

NOTE 10 - OTHER LONG-TERM LIABILITIES

Balances consisted of the following at December 31, 2017 and 2016:

	2017	2016
Net Other Postemployment Benefits (OPEB) Obligation	761,935	727,059
Nonqualified Deferred Compensation Plan Obligation	259,681	698,502
Escrow Liability	<u>1,350,000</u>	<u>1,350,000</u>
	2,371,616	2,775,561

NOTE 11 - 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 11 - NET POSITION (Continued)

Restricted - Restricted net position is comprised of the following as of December 31, 2017 and 2016:

	2017	2016
Restricted for Landfill Closure and Post-Closure		
Care Costs	10,164,740	8,886,828
Other	<u>333,412</u>	<u>322,052</u>
	10,498,152	9,208,880

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, 2017 and 2016, the balance of unrestricted net position is as follows:

	2017	2016
Board Designated Unrestricted Net Position:		
Construction/Capital Reserve Fund	26,196,435	26,712,152
Revenue Reserve Fund	<u>8,208,119</u>	<u>8,173,573</u>
Total Board Designated Unrestricted Net Position	34,404,554	34,885,725
Undesignated Unrestricted Net Position	<u>2,006,176</u>	<u>8,804,185</u>
Total Unrestricted Net Position	36,410,730	43,689,910

NOTE 12 - 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN (Continued)

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.

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, 2017 and 2016, of \$755,142 and \$688,637, respectively.

Employee Contributions

Participants may contribute to the EDCP on a pre-tax basis and a Roth 457 on a post-tax basis up to the maximum allowable by the IRS. Employees’ elected contributions for the years ended December 31, 2017 and 2016, were \$477,726 and \$389,666, respectively.

NOTE 13 - 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 \$761,935 and \$727,059 at December 31, 2017 and 2016, respectively, in other long-term liabilities for OPEB obligations.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

The Authority maintains a single employer defined benefit plan to permit employees who retire at age 60 with 25 years or more of service, or 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 (\$962 per year in 2017 and \$806 for 2016) 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:

Annual OPEB Cost and Net OPEB Obligation

	2017	2016	2015
Annual Required Contribution	206,538	208,985	209,238
Interest on Net OPEB Obligation	29,082	24,753	21,218
Adjustment to Annual Required Contribution	<u>(86,192)</u>	<u>(73,362)</u>	<u>(62,884)</u>
Annual OPEB Cost	149,428	160,376	167,572
Contributions Made	<u>114,552</u>	<u>52,145</u>	<u>79,190</u>
Increase in Net OPEB Obligation	34,876	108,231	88,382
Net OPEB Obligation - Beginning of Year	<u>727,059</u>	<u>618,828</u>	<u>530,446</u>
Net OPEB Obligation - End of Year	761,935	727,059	618,828

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2015, 2016, and 2017, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation - End of Year
12/31/2015	167,572	47%	618,828
12/31/2016	160,376	33%	727,059
12/31/2017	149,428	77%	761,935

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.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - 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 \$3,639,330 and \$3,699,080 at December 31, 2017 and 2016, 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, 2017 and 2016, the Authority received reimbursement from the fund for various claims totaling \$62,670 and \$49,305, 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, 2017, 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.

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, 2017 and 2016, 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 \$50,000 individually and \$1,336,051 in the aggregate. At December 31, 2017, management is not aware of any additional assessments related to the health plan.

NOTE 15 - COMMITMENTS and CONTINGENCIES

Covanta Service Agreements

The Authority has contracted with subsidiaries of Covanta Holdings to operate its WTE and SRMC facilities. As the largest waste to energy facility operator in the world, Covanta possesses a high degree of technical expertise that the Authority chose to leverage versus undertaking the development of staff and processes to accomplish similar facility performance.

The terms of the WTE Service Agreement and the SRMC Service Agreement both expired December 31, 2017.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

Covanta Service Agreements (Continued)

Effective January 1, 2018, the Authority entered into a new Master Service Agreement for the WTE and the SRMC. The significant terms of the renewals are disclosed in Note 19.

Forwards Contracts

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.

The Authority contracts with various customers for electric via short-term contracts. In the event the Authority fails to meet its obligation under the contracts, the Authority is liable for damages in the amount of any deficiency between the contract price and the replacement price for the specified electric capacity as stated in the agreement.

Assignment and Assumption of City of Harrisburg Waste Disposal Agreement

As described in Note 1, the Authority is responsible to dispose and process all MSW generated in the County of Dauphin, including 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 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

County of Dauphin Cooperation Agreement (Continued)

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.

Electric Plant Lease and Related Agreement

Upon 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"). 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. Covanta Harrisburg, Inc. operates the Electric Plant on behalf of Columbia. Columbia Borough purchases the 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) rent payable to the Authority; and (4) the cost of Columbia's purchase of the 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.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

Steam Sale Agreement

On June 22, 2016, the Authority entered into an Equipment and Facilities Agreement and a Utilities Agreement with Perdue Agribusiness LLC. The agreements were further modified July 2017. As required by the Equipment and Facilities Agreement, the Authority directed Covanta Lancaster, Inc. to connect the Conoy Waste-to-Energy Facility to the Soybean Processing facility 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 steam engineering and connection modification was completed in 2017 and Perdue reimbursed the Authority \$6,247,205 for a substantial portion of the modification costs. This reimbursement is treated as a capital contribution on the statements of revenues, expenses, and changes in net position. The Authority is obligated to maintain the steam bridge through the life of the agreement. The Authority provides steam and other utilities to Perdue as provided in the Utilities Agreement. Revenue recognized pursuant to the Utilities Agreement was \$290,014 for the year ended December 31, 2017.

Ash Recycling Service Agreement, Licensing and Improvement Loan

In July 2017, the Authority entered into amended and restated agreements with Inashco North America Lancaster, LLC (Inashco), whereby the Authority will license 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 term of the service agreement and license agreement is twenty years from commercial operation date. The Authority will earn a share of net revenue as defined in the agreement. Both the Authority and Inashco have established minimum performance obligations within the agreement. 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. Inashco has covenanted to remit a minimum monthly revenue assuming the Authority has provided the ash as obligated. 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. No advances have been made on the loan as of December 31, 2017.

Vertical Expansion Appeal

The Authority is constructing a vertical expansion of the Frey Farm Landfill that was permitted by the Pennsylvania Department of Environmental Protection ("DEP") in July of 2017. A group comprised of seven appellants filed an appeal to the DEP permit in August. In addition, in November a group composed of primarily the same appellants appealed both the local Zoning Permit for the vertical expansion and the underlying Zoning Ordinance. The Authority is vigorously defending all the appeals and expects to ultimately prevail, however, should any of the appeals be successful, existing and ongoing Frey Farm Landfill development costs could be impaired and future Integrated System operating costs would increase significantly, requiring a significant increase in tipping fees. The January 1, 2018 renewals of the customer "Hauler Agreements" allow tip fee increases in that event.

Landfill Closure and Post-Closure Care Costs

Landfill closure and post-closure care 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

Landfill Closure and Post-Closure Care Costs (Continued)

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, 2017 and 2016. At each reporting date, the liability recognized is based upon capacity utilized to-date at each site.

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, 2017, 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:

	2017	2016
Frey Farm Landfill**		
Total Estimated Closure and Post-Closure Costs	26,084,831	17,164,634
Capacity Used at December 31	<u>54.34%</u>	<u>82.57%</u>
Closure and Post-Closure Costs Recognized	14,174,387	14,177,341
Closure and Post Closure Costs Paid To-Date	<u>8,796,831</u>	<u>7,159,572</u>
Net Liability	5,377,556	7,017,769
Closure and Post-Closure Costs Remaining to be Recognized	11,910,432	2,987,289
Date that Capacity will be Reached	2038	2019
	2017	2016
Susquehanna Resource Management Complex Ashfill ***		
Total Estimated Closure and Post-Closure Costs	3,398,000	3,204,000
Capacity Used at December 31	<u>86.5%</u>	<u>86.5%</u>
Closure and Post-Closure Costs Recognized	3,398,000	3,204,000
Closure and Post Closure Costs Paid To-Date	<u>-0-</u>	<u>-0-</u>
Net Liability	3,398,000	3,204,000
Closure and Post-Closure Costs Remaining to be Recognized	-0-	-0-
Date that Capacity will be Reached	2020	2018

** The Frey Farm Landfill is in the process of vertical expansion which provides additional capacity to accept waste. As a result, the Authority has revised estimates for the total estimated closure and post-closure costs and the date capacity will be reached.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

Landfill Closure and Post-Closure Care Costs (Continued)

*** The Authority did not utilize capacity at the Susquehanna Resource Management Complex Ashfill, and has therefore recognized 100% of total estimated closure and post-closure costs at December 31, 2017 and 2016. 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:

	2017	2016
Creswell Landfill		
Current Portion	144,000	137,000
Long-Term Portion	<u>287,000</u>	<u>412,000</u>
	431,000	549,000

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 2017 and 2016, are as follows:

	2017	2016
Closure and Post-Closure Care		
Frey Farm Landfill		
Capacity Used in Current Year	711,742	615,945
Change in Estimate	<u>(714,696)</u>	<u>(895,555)</u>
	(2,954)	(279,610)
Susquehanna Resource Management Complex Ashfill		
Change in Estimate	194,000	(29,000)
Post-Closure Care		
Creswell Landfill		
Difference Between Actual and Estimated		
Costs - Current Year	(19,261)	(1,255)
Change in Estimate	<u>19,000</u>	<u>75,000</u>
	<u>(261)</u>	<u>73,745</u>
	190,785	(234,865)

Closure Collateral Funds and Other Commitments

In accordance with rules and regulations of the PaDEP, 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 PaDEP. The Authority also issues letters of credit related to improvement projects pursuant to local regulations. At December 31, 2017, the letters of credit issued totaled \$16,664,714 and are secured by deposits of \$19,371,296 with a margined value of \$17,602,255 (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, 2017 and 2016, letters of credit amounts are as follows:

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

Closure Collateral Funds and Other Commitments (Continued)

Sites	2017	2016
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>24,600</u>
	16,664,714	16,664,714

Performance Bonds

In connection with the construction of the Frey Farm Vertical Expansion and certain other construction projects, the Authority has issued performance bonds of approximately \$1.3 million in favor of third parties.

Agreements to Acquire Real Estate

The Authority has committed to acquire land in Conoy Township from Talen Energy for \$1,510,000. As of December 31, 2017, the Authority made a down payment of \$75,500 on the real estate acquisition. Settlement occurred on the acquisition in January 2018.

In conjunction with the real estate acquisition, the Authority agreed to sell a portion of the land acquired to the Lancaster County Conservancy for \$339,900. The Authority received \$30,000 as a down payment on the property as of December 31, 2017.

The down payments on the real estate transactions are netted and the net deposit of \$45,500 is shown as an other asset on the Statements of Net Position at December 31, 2017.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

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. In addition an appeal of the amended Zoning Ordinance has been filed as described on page 39, Vertical Expansion Appeal. 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.

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.

Open Construction Contract Commitments

At December 31, 2017, the Authority has open construction contract commitments totaling \$11,510,871 for various projects at Authority facilities. This amount includes \$1,307,273 which is included in accounts payable at December 31, 2017.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 16 - 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, 2017 and 2016:

	2017		2016	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer A	8,458,238	620,540	8,170,214	647,146
Customer B	8,277,202	686,146	7,616,185	605,025

Energy revenues include transactions with major customers as follows for the years ended December 31, 2017 and 2016:

	2017		2016	
	Sales	Accounts Receivable	Sales	Accounts Receivable
Customer D	4,714,365	407,259	4,784,100	389,286
Customer E	6,995,371	743,059	6,068,532	772,565

NOTE 17 - 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 2017 and 2016, was \$24,000.

NOTE 18 - RECLASSIFICATIONS

Certain amounts in the prior periods 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 19 - SUBSEQUENT EVENTS

As discussed in Note 15, the Authority settled on a Talen Energy land acquisition and resale agreement in January 2018.

In February 2018, the Authority offered to purchase land from private individuals in Conoy Township for \$792,360. The offer was accepted in February 2018, subject to the seller's terms of settlement which were agreed to by the Authority. Settlement is anticipated in the second quarter of 2018.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - SUBSEQUENT EVENTS (Continued)

In February 2018, the Authority agreed to enter into an agreement to sell a 22.9 acre tract of land in Conoy Township, which is a portion of the land acquired from Talen Energy as described in Note 15, to Almost Home Dog Adoption Center, a 501(c)3 nonprofit organization, for \$236,627. The Authority has agreed to credit Almost Home Dog Adoption Center up to \$70,000 for completed and substantiated land development planning costs at the time of settlement.

As discussed in Note 15, the Authority entered into service agreements (the "Master Service Agreements") with Covanta Lancaster, Inc. and Covanta Harrisburg, Inc. collectively the "Covanta Parties", effective January 1, 2018. Under the Master Service Agreements, the Covanta Parties are obligated to operate and maintain waste-to-energy facilities in Lancaster and Harrisburg, Pennsylvania. The agreements can be terminated under limited circumstances, as defined in the agreements. The terms of the Master Service Agreements are fifteen years. The Master Service Agreements sets forth terms for the Covanta Parties to accept, process, and manage minimum acceptable waste at each facility for a fee established under the contract. The parent of the Covanta Parties, Covanta Holdings, provided a limited guaranty of the obligations of the Covanta Parties.

Subsequent to December 31, 2017, the Authority advanced approximately \$1,940,000 to Inashco North America Lancaster, LLC on the ash recycling improvement loan which is discussed in Note 15.

Lancaster County Solid Waste Management Authority

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/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, 2017 and 2016, and our report thereon dated March 7, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on such financial statements as a whole. The schedules of condensed revenues and expenses on page 48 and the concise statements for publication on page 49 as of and for the years ended December 31, 2017 and 2016, are presented for purposes of additional analysis and are not a required part of the 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 2017 and 2016 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements for the years ended December 31, 2017 and 2016, as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the statements of net position of **Lancaster County Solid Waste Management Authority** as of December 31, 2015, 2014, and 2013, and the related statements of revenues, expenses, and changes in net position, and the statements of cash flows for each of the three years then ended (none of which is presented herein), and we expressed unmodified opinions on those financial statements. Those audits were conducted for purposes of forming an opinion on the financial statements as a whole. The schedules of condensed revenues and expenses on page 48 is presented for purposes of additional analysis and is not a required part of the 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 2015, 2014, and 2013 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of condensed revenues and expenses on page 48 is fairly stated in all material respects in relation to the financial statements from which it has been derived.

March 16, 2018
Lancaster, Pennsylvania

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

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Lancaster County Solid Waste Management Authority

SCHEDULES of CONDENSED REVENUES and EXPENSES

Years Ended December 31, 2017, 2016, 2015, 2014, and 2013

	2017	2016	2015	2014	2013
OPERATING REVENUES					
Tipping Fees	\$ 65,724,017	\$ 61,760,388	\$ 59,545,228	\$ 57,350,288	\$ 36,528,464
Energy	14,409,009	14,738,431	18,401,006	18,706,329	12,366,845
Transportation and Other	<u>3,150,996</u>	<u>2,439,187</u>	<u>2,745,659</u>	<u>4,362,067</u>	<u>3,312,889</u>
Total Operating Revenues	83,284,022	78,938,006	80,691,893	80,418,684	52,208,198
OPERATING EXPENSES					
Waste-to-Energy Facility	22,723,842	22,476,694	23,230,173	22,476,602	21,586,995
Susq. Resource Mgmt Complex	18,630,613	18,535,832	18,283,527	19,127,931	439,348
Depreciation	13,609,605	13,171,084	12,642,052	12,187,390	7,667,655
Landfills	4,553,918	4,284,513	4,319,801	4,016,806	3,522,988
Transfer Station Complex	3,765,041	3,241,425	3,051,474	3,141,323	3,132,300
Closure and Post-Closure Care	190,785	(234,865)	592,718	1,709,978	476,203
Household Hazardous Waste	<u>502,269</u>	<u>475,214</u>	<u>449,586</u>	<u>386,158</u>	<u>341,862</u>
Total Operating Expenses	63,976,073	61,949,897	62,569,331	63,046,188	37,167,351
SUPPORT EXPENSES	<u>12,557,702</u>	<u>11,911,845</u>	<u>11,065,311</u>	<u>10,645,333</u>	<u>14,009,625</u>
Total Operating and Support Expenses	<u>76,533,775</u>	<u>73,861,742</u>	<u>73,634,642</u>	<u>73,691,521</u>	<u>51,176,976</u>
OPERATING INCOME	6,750,247	5,076,264	7,057,251	6,727,163	1,031,222
INTEREST and INVESTMENT EARNINGS	718,542	673,671	601,975	1,049,363	309,060
INTEREST EXPENSE	(4,681,613)	(4,769,778)	(5,139,214)	(5,591,063)	(1,538,259)
NET OTHER NONOPERATING REVENUES (EXPENSES) and CAPITAL CONTRIBUTIONS	<u>5,521,010</u>	<u>1,660,585</u>	<u>2,626,575</u>	<u>(1,883,657)</u>	<u>6,782,293</u>
CHANGES in NET POSITION	<u>\$ 8,308,186</u>	<u>\$ 2,640,742</u>	<u>\$ 5,146,587</u>	<u>\$ 301,806</u>	<u>\$ 6,584,316</u>

See independent auditors' report on supplementary information.

Lancaster County Solid Waste Management Authority

Concise Statements for Publication

STATEMENTS of NET POSITION December 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets	\$ 48,273,609	\$ 52,251,904
Restricted Assets	30,078,554	30,351,630
Other Assets	411,619	2,778,667
Real Estate, Facilities, and Equipment	<u>239,126,342</u>	<u>229,400,626</u>
TOTAL ASSETS	317,890,124	314,782,827
LIABILITIES and NET ASSETS		
Current Liabilities	15,521,882	14,077,100
Long-Term Liabilities	<u>134,085,622</u>	<u>140,731,293</u>
TOTAL LIABILITIES	<u>149,607,504</u>	<u>154,808,393</u>
NET POSITION	<u>\$ 168,282,620</u>	<u>\$ 159,974,434</u>

STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET POSITION Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES	\$ 83,284,022	\$ 78,938,006
OPERATING and SUPPORT EXPENSES	<u>76,533,775</u>	<u>73,861,742</u>
OPERATING INCOME	6,750,247	5,076,264
NET NON-OPERATING REVENUES (EXPENSES)	(4,689,266)	(2,435,522)
CAPITAL CONTRIBUTIONS	<u>6,247,205</u>	<u>-0-</u>
CHANGES in NET POSITION	<u>\$ 8,308,186</u>	<u>\$ 2,640,742</u>

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