

Lancaster County Solid Waste Management Authority

Years Ended December 31, 2018 and 2017



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Lancaster County Solid Waste Management Authority

Lancaster, Pennsylvania

Years Ended December 31, 2018 and 2017

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Lancaster County Solid Waste Management Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As described in Note 18 to the financial statements, **Lancaster County Solid Waste Management Authority** adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other postemployment benefits information on pages 3 through 9 and 46 and 47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

April 2, 2019
Lancaster, Pennsylvania

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

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

The following narrative and analysis has been drafted by the Management of the **Lancaster County Solid Waste Management Authority** (the Authority), to assist the reader in understanding financial activities of the Authority for the fiscal year ended December 31, 2018.

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 MDA 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 present 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. Over the past five (5) years, the Authority's net position has increased from \$151,885,299 to \$173,980,928 an improvement of 15%.

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

Notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15 through 45 of this report.

SUMMARY

The Authority experienced its 5th consecutive year of waste tonnage growth in 2018. This growth provided benefits through higher revenues but also increased expenses in certain areas related to operations. In addition to strong demand for waste disposal services, the Authority expended considerable efforts to complete construction of its long-planned Frey Farm Landfill expansion and make other key investments to improve the effectiveness of its infrastructure as part of an intense year of capital investment that was well executed. LCSWMA's revenues, operating margins, and cash flows exceeded fiscal targets.

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.

LCSWMA's capital funding model continues to benefit from a strong economic cycle that is generating robust waste volumes. Higher tonnage volumes boosted tipping revenue allowing for variable cost escalations to be absorbed. This combination yielded higher cash flows to assist funding the Authority's 2018 capital expenditures of \$21,571,282.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

SUMMARY (Continued)

The Authority had its first full year of direct thermal energy (steam) deliveries from its Waste-to-Energy Facility (WTE) to Perdue's soybean processing facility under its long-term contract with Perdue. LCSWMA recorded its highest revenues ever in testament to the value of the services and products it reliably provided to its stakeholders. Record revenues of \$92,321,152 and a record operating surplus also reflect favorably on the effectiveness of LCSWMA's people and infrastructure.

Capital expenditures (CAPEX) were significant in 2018. CAPEX investment included functional upgrades and additions, necessary site maintenance and equipment replacements. Ash process modifications were completed at the SRMC facility along with boiler upgrades. Cell capping and phase one construction of the vertical expansion was completed at the Frey Farm Landfill. Land was acquired for a future satellite transfer station in the Northeast quadrant of Lancaster County.

The Authority's higher operating revenues and annual debt principal repayments have improved its debt coverage ratio of the remaining debt associated with the SRMC to 2.6.

Financial results exceeded both budgeted expectations and prior year performance. Overall operating revenue totaled \$92,321,152 for the year. Operating income grew 43% to \$9,758,335. The Authority received a record total of 1,027,485 tons of waste, including recyclable material. This represented a 4.1% increase over 2017.

FINANCIAL REVIEW

The Authority strengthened its balance sheet position by growing its net position by 4.3% to \$173,980,928. Overall assets and deferred outflows increased by \$5,732,047 from strong operating surpluses. Total debt (current and long-term) was reduced by \$4,125,000 to a principal balance of \$117,315,000 at December 31, 2018.

A majority of the Authority's net position is comprised of two components: 1) investment in capital assets (net of associated debt) and 2) investments in board designated investment reserve funds which represent \$21,962,289 of the unrestricted net position total. These investment reserves consist of funds set aside for future capital and construction project funding along with business interruptions and strategic opportunities.

CAPEX investments totaled \$21,571,282 while asset sales provided \$423,269 in proceeds. CAPEX was funded by operating cash surplus and withdraws from designated capital reserves.

| | Net Position | |
|--|--------------------|--------------------|
| | 2018 | 2017 |
| Current and Other Assets | 81,897,443 | 80,273,015 |
| Capital Assets | <u>243,233,961</u> | <u>239,126,342</u> |
| TOTAL ASSETS and DEFERRED OUTFLOWS | 325,131,404 | 319,399,357 |
| Long-Term Liabilities Outstanding | 123,433,979 | 127,893,593 |
| Landfill Closure and Post-Closure Costs (Current and Long-Term) | 10,916,146 | 9,206,556 |
| Other Liabilities | <u>16,800,351</u> | <u>15,417,286</u> |
| TOTAL LIABILITIES and DEFERRED INFLOWS | 151,150,476 | 152,517,435 |

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL REVIEW (Continued)

| | Net Position | |
|----------------------------------|--------------------|--------------------|
| | 2018 | 2017 |
| Net Investment in Capital Assets | 130,164,500 | 121,373,738 |
| Restricted | 8,654,814 | 10,498,152 |
| Unrestricted | <u>35,161,614</u> | <u>35,010,032</u> |
| TOTAL NET POSITION | 173,980,928 | 166,881,922 |

The Authority's net position increased by \$7,099,006 during the year. Operating income increased to \$9,758,335 compared with 2017's operating income of \$6,811,410. Net non-operating expenses of \$2,659,329 were recorded.

Total operating revenues of \$92,321,152 increased by \$9,037,130 (10.9%) from 2017. Tipping fees and energy sales accounted for 97% of operating revenue. Tipping fee revenue increased by \$5,868,923 (8.9%) compared to 2017 on higher system average pricing and higher contract refuse and C&D tonnages. The Authority improved its system average rate per ton to \$69.68 (+4.6%) through rate increases and growth in its contract refuse business. Energy revenue increased \$3,287,611 (23%) from 2017 due to a full year of Perdue steam sales. Other operating revenues, consisting mostly of revenue received on the sale of recovered metal after waste combustion, increased due to higher metal prices. Due to substantial mid-year changes in the single-stream recycling market, this line of business yielded revenue, net of expenses of \$105,644.

Total operating and support expenses, excluding depreciation, were \$67,983,724 an increase of 8.2% from 2017. 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 \$1,987,153, 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 the year.

Depreciation expense of \$14,579,093 increased 6.7% from 2017 reflecting additional assets capitalized and placed into service.

General and administrative costs increased 15.9% relative to 2017 and include volume-based customer rebates.

Net non-operating expenses were \$2,659,329 consisting of interest expense on debt less investment earnings, net gains on asset sales, and other non-operating revenue sources. Investment earnings were \$1,086,299 as compared to 2017 earnings of \$718,542. This increase reflects an increased interest rate environment and reduced principal withdraws throughout the year as higher operating cash flows provided additional capital expenditure contributions.

| | Change in Net Position | |
|--------------------------------|------------------------|-------------------|
| | 2018 | 2017 |
| Revenues: | | |
| Tipping Fees | 71,592,940 | 65,724,017 |
| Energy | 17,696,620 | 14,409,009 |
| Transportation | 1,627,387 | 1,653,075 |
| Other Revenues | <u>1,404,205</u> | <u>1,497,921</u> |
| TOTAL OPERATING REVENUE | 92,321,152 | 83,284,022 |

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

FINANCIAL REVIEW (Continued)

| | Change in Net Position | |
|---|-------------------------------|--------------------|
| | 2018 | 2017 |
| Expenses: | | |
| Operating Expenses, Excluding Depreciation | 53,560,239 | 50,366,468 |
| Support Expenses, Excluding Depreciation | 14,423,485 | 12,443,227 |
| Depreciation Expense | <u>14,579,093</u> | <u>13,662,917</u> |
| TOTAL OPERATING and SUPPORT EXPENSES | 82,562,817 | 76,472,612 |
| Interest Expense | (4,586,685) | (4,681,613) |
| Investment Earnings | 1,086,299 | 718,542 |
| Gain (Loss) on Asset Disposals | 70,546 | (993,681) |
| Other Non-Operating Revenue | <u>770,511</u> | <u>267,486</u> |
| NET NON-OPERATING REVENUE (EXPENSE) | (2,659,329) | (4,689,266) |
| CAPITAL CONTRIBUTIONS | <u>-0-</u> | <u>6,247,205</u> |
| INCREASE in NET POSITION | 7,099,006 | 8,369,349 |
| Net Position - January 1 | <u>166,881,922</u> | <u>158,512,573</u> |
| NET POSITION - DECEMBER 31 | 173,980,928 | 166,881,922 |

CAPITAL ASSETS, DEBT ADMINISTRATION, and LONG-TERM OBLIGATIONS

Capital Assets

The Authority invested \$21,571,282 in capital assets through a combination of projects and improvements at each site, as well as operating equipment purchases. Planned upgrades to SRMC's waste-to-energy facility and general improvements to the site's infrastructure accounted for 12% of total CAPEX. The Frey Farm Vertical Expansion accounted for 49%, and site work for Inashco's construction of a Metal Recovery Facility at the Frey Farm Landfill accounted for 7%. Purchases of transportation and other operating equipment represented 12% 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.

Proceeds from property and equipment sales were \$423,269. Total depreciation expense was \$14,579,093. A comparison of capital assets as of December 31, 2018 and December 31, 2017, is shown below.

| | Capital Assets | |
|--|-----------------------|-------------|
| | 2018 | 2017 |
| Susquehanna Resource Management Complex (SRMC) | 113,455,386 | 114,679,464 |
| Lancaster Waste-to-Energy Facility | 38,330,451 | 41,767,378 |
| Frey Farm Landfill Facility | 26,995,417 | 27,658,080 |
| Transfer Station Complex | 17,986,182 | 18,671,248 |
| Support Facilities | 6,651,459 | 6,926,526 |
| Other Real Estate | 6,178,926 | 6,369,449 |
| Equipment | 9,453,120 | 9,657,428 |
| Administrative Building and Equipment | 1,244,346 | 1,096,628 |

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

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

Capital Assets (Continued)

| | Capital Assets | |
|-------------------------------|--------------------|--------------------|
| | 2018 | 2017 |
| Muddy Creek Property Purchase | 1,068,386 | -0- |
| Construction in Progress | <u>21,870,288</u> | <u>12,300,141</u> |
| TOTAL CAPITAL ASSETS | 243,233,961 | 239,126,342 |

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, 2018, the Authority had \$117,315,000 of outstanding bond principal liability associated with the acquisition of the SRMC assets on December 23, 2013. Principal payments of \$4,125,000 were made in 2018 (see Note 9). The Authority also has obligations to close the Frey Farm Landfill at permit expiration and perform post-closure monitoring for the Creswell and Frey Farm Landfills as well as post-closure monitoring associated with the SRMC ash landfills. The Authority has recorded total related liabilities in the amount of \$10,916,146 for these activities.

REVIEW of 2018 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 constitutes the entire solid waste processing and disposal system (the System).

In 2018, the System received 1,027,485 revenue tons of waste which includes refuse, construction and demolition (C&D), residual and recyclable material. This represented a 4.1% increase over 2017. The TSC received 396,724 tons of waste which was then transferred to the WTE facility, FFLF, SRMC or several privately owned and operated recycling facilities. WTE received 409,681 tons of waste either delivered directly to the facility or transferred in from the TSC or SRMC, while the FFLF received 492,300 tons of waste either delivered directly to the FFLF or transferred in from the TSC, WTE or SRMC. There were 310,538 tons of waste received at SRMC.

The WTE facility processed 407,821 tons of waste to generate 197.0 M kWh of electricity and 38.6M kWh equivalent of steam for Perdue consumption. There were 174.4M kWh of electricity generated at WTE which was sold to the PJM grid at an average rate of \$.031/kWh. In addition, 22.6M kWh of electricity was also sold through forward contracts at an average rate of \$.041/kWh. The WTE facility had direct steam deliveries to Perdue's soybean process facility that realized an average rate of \$.080/kWh. In exchange for an obligation to provide electricity to the PJM grid during periods of need, LCSWMA's WTE facility recognized \$1,143,011 in capacity commitment revenue. WTE's renewable energy credits (RECs) totaled \$1,098,938. The SRMC facility processed 269,879 tons of waste generating 101.7M kWh of electricity, 92% of which was sold under a 20-year contract to the Commonwealth of Pennsylvania's Department of General Services (DGS) at a rate of \$.047/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 \$403,072 of revenue, and RECs generating another \$475,182.

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

REVIEW of 2018 BUSINESS (Continued)

Operating Revenue

The Authority's integrated waste disposal and processing system provided sufficient capacity to take delivery of 1,027,485 tons of waste material which provides tipping revenue for the system. About 70% 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 97% of 2018's operating revenue.

The Authority earned \$71,592,940 in tipping revenue in 2018 (78% of the total operating revenue). Refuse and C/D comprised 83% of the tipping revenue and 76% of the total tons received. Residual waste streams accounted for 16% of overall system tipping revenue and 22% 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 \$17,696,620 in 2018 (19% of all operating revenue). Direct energy products include electricity and thermal energy (steam) sold for consumption. Direct energy products accounted for 82% of energy related revenues of which, 62% was derived from the production and sale of electricity at both the WTE and SRMC plants and an additional 20% from steam sold to Perdue. Indirect energy products include Capacity and REC's. Capacity revenues accounted for 9% of the energy category totaling \$1,546,083 in 2018. 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, 2019, and includes annual adjustments to the price paid for RECs produced. REC revenue totaled \$1,574,119 (about 9% 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 \$72,812 in revenue.

Transportation revenues of \$1,627,387 reflects fees charged to haulers for waste that is delivered to the Authority's TSC (which is then transferred to the FFLF, WTE or SRMC sites). Other revenue primarily consists of the sale of metal recovered from ash. Metal prices remained steady in 2018 resulting in \$1,451,595 of metal recovery sales from the processed waste. The Authority operates a compressed natural gas (CNG) fueling station which generated \$54,000 in revenues in 2018.

BUSINESS OUTLOOK

LCSWMA's waste market has maintained a strong diverse economy boosting waste volumes and enabling disposal price increases in certain types of waste. LCSWMA anticipates record and near record waste volumes in 2019 and believes it is well-positioned to meet this need. High waste volumes will improve fixed cost absorptions and provide flexibility to further increase lower priced waste streams. It is not expected that strong economic activity levels will translate to higher energy pricing in the near term. However, LCSWMA's energy revenues are improved 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 may consider similar direct energy sale opportunities for its WTE facility to further reduce its exposure to volatility associated with open market electricity sales and historic-low price trends.

The commencement of operations of the Inashco metals recovery facility in 2019 will provide additional revenue from the sale of recovered metal along with interest income from the Inashco loan (see Notes 4 and 15 referencing "Inashco").

Lancaster County Solid Waste Management Authority

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

BUSINESS OUTLOOK (Continued)

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 continues to invest in infrastructure, equipment, and technologies to increase operational consistency and reduce operating costs. The SRMC acquisition 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 received permits to construct the Frey Farm Vertical Expansion in 2017 and finished construction in 2018. This expansion is estimated to add approximately 18 years of disposal capacity integral to the Authority's sustainable waste plan. Certain appeals of expansion permits were filed. A settlement agreement was executed with the Appellants in November 2018 and the appeals were withdrawn in March 2019. (see Note 15 referencing the "Frey Farm Vertical Expansion").

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.

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. LCSWMA's CEO of 22 years, James D. Warner, retired at the end of 2018 and Robert B. Zorbaugh, formerly COO, assumed the role in January 2019.

Capital Expenses and Reserve Management

The Authority was able to cover the CAPEX spend through free cash flows from operations in 2018 and plans the same for 2019. The largest CAPEX are plant upgrades to both Lancaster and SRMC Waste to Energy facilities, comprising 32% of CAPEX. Strong operating revenues and disciplined cost management have improved free cash flows and supported CAPEX funding. LCSWMA expects to cover 100% of its 2019 CAPEX (\$13,256,000) through free cash flows positioning the Authority with a strong balance sheet profile.

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 Commercial 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, 2018 and 2017

| | 2018 | Restated 2017 |
|---|-----------------------|--------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 8,511,612 | \$ 6,394,582 |
| Investments | 18,068,589 | 30,198,138 |
| Accounts Receivable, net of Provision for Bad Debts of \$10,000 at 2018 and 2017 | 11,627,296 | 11,042,953 |
| Grants Receivable, Current Portion | 109,428 | 200,000 |
| Notes Receivable, Current Portion | 785,565 | 6,643 |
| Interest Receivable | 150,473 | 172,179 |
| Inventory | 19,815 | 18,271 |
| Prepaid Assets | 285,961 | 240,843 |
| Total Current Assets | 39,558,739 | 48,273,609 |
| RESTRICTED ASSETS | | |
| Investments with Trustee (Note 3) | 9,044,524 | 9,023,653 |
| Interest Receivable | 2,279 | 193 |
| Total Restricted Assets with Trustee | 9,046,803 | 9,023,846 |
| Escrow Deposits | 1,607,962 | 1,683,412 |
| Closure and Post-Closure Care Funds | 19,312,998 | 19,371,296 |
| Total Restricted Assets | 29,967,763 | 30,078,554 |
| OTHER ASSETS | | |
| Notes Receivable, net of Current Portion (Note 4) | 8,166,560 | 335,119 |
| Other Real Estate | 2,853,184 | 45,500 |
| Other - Raffles Insurance, Ltd. | 31,000 | 31,000 |
| Total Other Assets | 11,050,744 | 411,619 |
| REAL ESTATE, FACILITIES, and EQUIPMENT (Note 5) | | |
| Lancaster Waste-to-Energy Facility | 148,282,720 | 147,371,588 |
| Susquehanna Resource Management Complex | 136,103,601 | 132,489,049 |
| Landfill Facility | 87,791,203 | 87,710,723 |
| Transfer Station Complex | 26,383,433 | 26,210,158 |
| Equipment | 22,920,677 | 21,362,839 |
| Support Facilities | 9,954,021 | 9,887,428 |
| Other Real Estate | 8,659,216 | 8,622,951 |
| Administrative Building and Equipment | 4,402,867 | 4,051,048 |
| Muddy Creek Property | 1,068,386 | -0- |
| | 445,566,124 | 437,705,784 |
| Accumulated Depreciation | (224,202,451) | (210,879,583) |
| Net Depreciable Assets | 221,363,673 | 226,826,201 |
| Construction in Progress (Note 6) | 21,870,288 | 12,300,141 |
| Net Real Estate, Facilities, and Equipment | 243,233,961 | 239,126,342 |
| TOTAL ASSETS | 323,811,207 | 317,890,124 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Other Postemployment Benefits | 1,320,197 | 1,509,233 |
| TOTAL ASSETS and DEFERRED OUTFLOWS of RESOURCES | \$ 325,131,404 | \$ 319,399,357 |

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of NET POSITION

(Continued)

December 31, 2018 and 2017

| | 2018 | Restated 2017 |
|--|-----------------------|--------------------------|
| LIABILITIES and NET POSITION | | |
| CURRENT LIABILITIES | | |
| Current Portion of Long-Term Debt (Note 9) | \$ 4,330,000 | \$ 4,125,000 |
| Current Portion of Estimated Post-Closure Care Costs | 150,000 | 144,000 |
| Accounts Payable - Trade | 6,936,119 | 5,977,559 |
| Prepaid Disposal Fees | 1,070,783 | 988,872 |
| Accrued Expenses (Note 8) | <u>4,430,569</u> | <u>4,286,451</u> |
| Total Current Liabilities | 16,917,471 | 15,521,882 |
| LONG-TERM LIABILITIES | | |
| Long-Term Debt, net of Current Portion (Note 9) | 117,786,264 | 122,651,450 |
| Estimated Closure and Post-Closure Care Liability, net of Current Portion | 10,766,146 | 9,062,556 |
| Other Long-Term Liabilities (Note 10) | <u>5,647,715</u> | <u>5,242,143</u> |
| Total Long-Term Liabilities | 134,200,125 | 136,956,149 |
| TOTAL LIABILITIES | 151,117,596 | 152,478,031 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Other Postemployment Benefits | <u>32,880</u> | <u>39,404</u> |
| TOTAL LIABILITIES and DEFERRED INFLOWS of RESOURCES | 151,150,476 | 152,517,435 |
| NET POSITION (Note 11) | | |
| Net Investment in Capital Assets | 130,164,500 | 121,373,738 |
| Restricted | 8,654,814 | 10,498,152 |
| Unrestricted | <u>35,161,614</u> | <u>35,010,032</u> |
| TOTAL NET POSITION | \$ 173,980,928 | \$ 166,881,922 |

See notes to financial statements.

Lancaster County Solid Waste Management Authority
 STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET POSITION
 Years Ended December 31, 2018 and 2017

| | 2018 | Restated 2017 |
|---|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Tipping Fees | \$ 71,592,940 | \$ 65,724,017 |
| Energy | 17,696,620 | 14,409,009 |
| Transportation | 1,627,387 | 1,653,075 |
| Other | 1,404,205 | 1,497,921 |
| Total Operating Revenues | 92,321,152 | 83,284,022 |
| OPERATING EXPENSES | | |
| Lancaster Waste-to-Energy Facility | 22,112,494 | 22,723,842 |
| Susquehanna Resource Management Complex | 18,824,726 | 18,630,613 |
| Depreciation | 14,492,523 | 13,609,605 |
| Landfills | 5,213,251 | 4,553,918 |
| Transfer Station Complex | 4,933,579 | 3,765,041 |
| Closure and Post-Closure Care | 1,987,153 | 190,785 |
| Household Hazardous Waste | 489,036 | 502,269 |
| Total Operating Expenses | 68,052,762 | 63,976,073 |
| SUPPORT EXPENSES | | |
| General and Administrative | 14,423,485 | 12,443,227 |
| Depreciation | 86,570 | 53,312 |
| Total Support Expenses | 14,510,055 | 12,496,539 |
| Total Operating and Support Expenses | 82,562,817 | 76,472,612 |
| OPERATING INCOME | 9,758,335 | 6,811,410 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Grant Revenues | 300,071 | 201,718 |
| Gain (Loss) on Disposal of Assets | 70,546 | (993,681) |
| Miscellaneous | 470,440 | 538,377 |
| Bad Debt Expense/Defaulted Note Receivable | -0- | (472,609) |
| Interest and Investment Earnings | 1,086,299 | 718,542 |
| Interest Expense | (4,586,685) | (4,681,613) |
| Net Nonoperating Expenses | (2,659,329) | (4,689,266) |
| CHANGES in NET POSITION | | |
| Before CAPITAL CONTRIBUTIONS | 7,099,006 | 2,122,144 |
| CAPITAL CONTRIBUTIONS (Note 15) | -0- | 6,247,205 |
| CHANGES in NET POSITION | 7,099,006 | 8,369,349 |
| NET POSITION | | |
| Beginning of Year, As Previously Reported | 166,881,922 | 159,974,434 |
| Cumulative Effect of Change in Accounting Principle (Note 18) | -0- | (1,461,861) |
| Beginning of Year, As Restated | 166,881,922 | 158,512,573 |
| End of Year | \$ 173,980,928 | \$ 166,881,922 |

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

Years Ended December 31, 2018 and 2017

| | 2018 | Restated 2017 |
|--|----------------------------|----------------------------|
| CASH FLOWS from OPERATING ACTIVITIES | | |
| Receipts from Customers and Users | \$ 92,289,160 | \$ 81,672,608 |
| Payments to Suppliers | (58,039,291) | (55,884,109) |
| Payments to Employees | <u>(6,966,580)</u> | <u>(7,893,332)</u> |
| Net Cash Provided by Operating Activities | 27,283,289 | 17,895,167 |
| CASH FLOWS from NON-CAPITAL and RELATED FINANCING ACTIVITIES | | |
| State and Local Grant Income | 390,643 | 518,360 |
| CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES | | |
| Interest Paid | (5,121,871) | (5,227,126) |
| Principal Payments | (4,125,000) | (4,025,000) |
| Payments for Capital Acquisitions | (21,571,282) | (23,212,737) |
| Proceeds from Capital Contributions | -0- | 6,247,205 |
| Proceeds from Sale of Capital Assets | <u>423,269</u> | <u>760,453</u> |
| Net Cash Used by Capital and Related Financing Activities | (30,394,884) | (25,457,205) |
| CASH FLOWS from INVESTING ACTIVITIES | | |
| Release of (Deposits Made) for Escrow Funds | 75,450 | (11,360) |
| Performance Deposit Received | 100,000 | -0- |
| Advances on Note Receivable | (8,385,122) | -0- |
| Principal Payments Received on Notes Receivable | 6,667 | 6,356 |
| Sales of Restricted Investments | 38,167,048 | 33,440,042 |
| Purchases of Restricted Investments | (38,298,707) | (33,288,783) |
| Receipts of Interest | 1,092,791 | 1,010,088 |
| Sales of Unrestricted Investments | 14,149,755 | 11,054,394 |
| Purchases of Unrestricted Investments | <u>(2,069,900)</u> | <u>(8,889,714)</u> |
| Net Cash Provided by Investing Activities | 4,837,982 | 3,321,023 |
| INCREASE (DECREASE) in CASH and CASH EQUIVALENTS | 2,117,030 | (3,722,655) |
| CASH and CASH EQUIVALENTS | | |
| Beginning | <u>6,394,582</u> | <u>10,117,237</u> |
| Ending | <u>\$ 8,511,612</u> | <u>\$ 6,394,582</u> |

See notes to financial statements.

Lancaster County Solid Waste Management Authority

STATEMENTS of CASH FLOWS

(Continued)

Years Ended December 31, 2018 and 2017

| | 2018 | Restated 2017 |
|--|-----------------------------|-----------------------------|
| RECONCILIATION of OPERATING INCOME | | |
| to NET CASH PROVIDED by OPERATING ACTIVITIES | | |
| Operating Income | \$ 9,758,335 | \$ 6,811,410 |
| ADJUSTMENTS to RECONCILE OPERATING INCOME | | |
| to NET CASH PROVIDED by OPERATING ACTIVITIES | | |
| Depreciation | 14,579,093 | 13,662,917 |
| Miscellaneous Income not in Operating Income on Statements of Revenues, Expenses, and Changes in Net Position Included for Cash Flow | 470,440 | 538,377 |
| (Increase) Decrease in: | | |
| Accounts Receivable | (584,343) | (2,178,347) |
| Inventory and Other Current Assets | (46,662) | (37,511) |
| Increase (Decrease) in: | | |
| Current Liabilities | 1,245,138 | (38,238) |
| Estimated Closure and Post-Closure Care Costs | 1,709,590 | (1,564,213) |
| Other Postemployment Benefits - Related Changes Other than Periodic OPEB Costs | 151,698 | 700,772 |
| Total Adjustments | <u>17,524,954</u> | <u>11,083,757</u> |
| Net Cash Provided by Operating Activities | <u>\$ 27,283,289</u> | <u>\$ 17,895,167</u> |
| SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION | | |
| Defaulted Note and Accrued Interest Receivable | -0- | 2,237,999 |
| Capacity Reserve Accrual | 260,362 | -0- |
| Seizure of Collateral on Defaulted Note Receivable | -0- | 1,765,390 |
| Change in Market Value of Investments - Restricted | (169,086) | (133,329) |
| Change in Market Value of Investments - Unrestricted | (49,694) | (167,526) |
| Change in Accounts Payable Related to Capital Projects | 275,838 | 210,140 |
| Interest Accrued on Note Receivable | (231,908) | -0- |

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 Non-substantial 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 nonoperating 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 nonoperating 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 \$2,500 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, 2018 and 2017, was \$14,579,093 and \$13,662,917, respectively.

The Authority is holding other real estate totaling \$2,853,184 and \$45,500 at December 31, 2018 and 2017, respectively which is not used in operations (Note 7).

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

Other Postemployment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting 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.

The Authority sponsors a single-employer defined benefit OPEB plan. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. The single-employer OPEB plan is unfunded.

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 2018

During the current year, the Authority adopted GASB 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 postemployment benefits other than pensions (other postemployment benefits, or OPEB). This statement replaces the requirements of GASB Statement No. 45. The Authority sponsors a single-employer defined benefit OPEB plan. As a result of implementation of this statement in 2018, the Authority reports its total OPEB liability for the single-employer plan in the statement of net position as an other long-term liability. The Authority has provided additional disclosures related to other postemployment benefits provided to its employees, and provides supplementary information required by GASB Statement No. 75. Since the statement was implemented retroactively, beginning net position was restated, as discussed in Note 18, to account for the cumulative effect.

Pending Changes in Accounting Principles

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.

In June 2017, GASB issued Statement No. 87, *Leases*. The primary objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability, and consistency of information about the leasing activities of governments. The provisions of this statement are effective for the Authority's 2020 financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this statement are effective for the Authority's 2019 financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period incurred, and not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The provisions of this statement are effective for the Authority's 2020 financial statements.

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

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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, 2018, \$4,197,510 of the Authority's bank balance of \$11,580,996 was exposed to 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. Cash and cash equivalents exposed to credit risk were as follows at December 31, 2018 and 2017:

| | 2018 | 2017 |
|--|------------------|------------------|
| 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>4,197,510</u> | <u>3,122,683</u> |
| | 4,197,510 | 3,122,683 |

Reconciliation of Cash and Cash Equivalents to the Financial Statements

| | 2018 | 2017 |
|---|--------------------|--------------------|
| Uninsured Amount Above | 4,197,510 | 3,122,683 |
| Plus: Insured Amount | <u>7,383,486</u> | <u>8,509,406</u> |
| Bank Balance | 11,580,996 | 11,632,089 |
| Deposits in Transit | 951,751 | 5,952 |
| Outstanding Checks | <u>(478,460)</u> | <u>(448,249)</u> |
| Carrying Amount - Bank Balances | 12,054,287 | 11,189,792 |
| Petty Cash | 3,650 | 3,650 |
| Money Market Funds and Commercial Paper Classified as Cash Equivalents | 5,141,587 | 5,143,958 |
| Escrow Deposits in Restricted Assets | (1,607,962) | (1,683,412) |
| Certificates of Deposit Classified as Investments | <u>(7,079,950)</u> | <u>(8,259,406)</u> |
| Total Cash and Cash Equivalents Per Financial Statements | 8,511,612 | 6,394,582 |

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

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, 2018 and 2017:

| | Recorded Value | 2018 Fair Value Measurements Using | | | Maturity |
|--|-------------------|---------------------------------------|-------------------|----------------|--------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Investments Recorded at Fair Value: | | | | | |
| U.S. Agency Securities | 2,788,386 | | 2,788,386 | | < 1 Year |
| | 5,410,964 | | 5,410,964 | | 1 - 5 Years |
| | 3,708,521 | | 3,708,521 | | 6 - 10 Years |
| | 2,149,101 | | 2,149,101 | | > 10 Years |
| U.S. Treasury Securities | 5,351,384 | | 5,351,384 | | < 1 Year |
| | 11,254,953 | | 11,254,953 | | 1 - 5 Years |
| | 3,578,465 | | 3,578,465 | | 6 - 10 Years |
| Money Market Mutual Funds | 7,732,964 | 7,732,964 | | | |
| Commercial Paper | <u>2,544,535</u> | | <u>2,544,535</u> | | < 1 Year |
| Total Investments at Fair Value | 44,519,273 | 7,732,964 | 36,786,309 | -0- | |

| | Recorded Value | 2017 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>569,541</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)

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, 2018 and 2017, the Authority's investments were rated as:

| | 2018 | | |
|----------------------------|--------------------------|----------------------|-------------------------|
| | AAA | AA | A |
| U.S. Agency Securities | 14,056,972 | | |
| U.S. Treasury Securities | 20,184,802 | | |
| Money Market Mutual Funds | 7,732,964 | | |
| Commercial Paper | | | <u>2,544,535</u> |
| | <u>41,974,738</u> | <u>-0-</u> | <u>2,544,535</u> |
| | | 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>569,541</u> |
| | <u>54,929,668</u> | <u>99,751</u> | <u>569,541</u> |

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 Farm Credit Bank and Federal National Mortgage Association Pool. These investments are 6.2% and 10.5% 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, 2018 and 2017, none of the Authority's investments were exposed to custodial credit risk.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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

Investments (Continued)

Reconciliation of Investments to Financial Statements

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Total Investments Per Footnotes | 44,519,273 | 55,598,960 |
| Less: Money Market Funds/Commercial Paper | (5,141,587) | (5,143,958) |
| Less: Investments in Escrow Deposits | (31,525) | (121,321) |
| Add: Certificates of Deposit | <u>7,079,950</u> | <u>8,259,406</u> |
| Total Investments per Financial Statements | 46,426,111 | 58,593,087 |

The following schedule summarizes investments and their classifications in the statements of net position at December 31, 2018 and 2017:

| | 2018 | 2017 |
|-------------------------------------|-------------------|-------------------|
| Unrestricted Assets: | | |
| Investments | 18,068,589 | 30,198,138 |
| Restricted Assets: | | |
| Investments with Trustee | 9,044,524 | 9,023,653 |
| Closure and Post-Closure Care Funds | <u>19,312,998</u> | <u>19,371,296</u> |
| | 46,426,111 | 58,593,087 |

NOTE 3 - INVESTMENTS with TRUSTEE

Pursuant to the Amended and Restated Trust Indenture dated March 17, 1998, debt service reserve funds are held by the trustee and are classified as restricted assets in the accompanying statements of net position.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 4 - NOTES RECEIVABLE (Continued)

Note Receivable from Inashco North America Lancaster, LLC

During the year ended December 31, 2017, the Authority entered into a promissory note agreement with Inashco North America Lancaster, LLC for loan proceeds up to \$11,000,000. The loan is subject to interest only until commercial operation date, at which time principal and interest at a rate of 5% will be payable monthly. The commercial operation date is projected for April 2019. The loan will be paid over ten years. The loan is secured by a first lien security interest on the facility, a letter of credit, and the guaranty of Inashco's parent company.

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, 2018 and 2017, are summarized as follows:

| | December 31, 2018 | | |
|---|----------------------------|------------------------------|------------------|
| | Current Portion | Long-Term Portion | Total |
| Mortgage Note Receivable | 335,095 | | 335,095 |
| Inashco North America Lancaster, LLC Note | <u>450,470</u> | <u>8,166,560</u> | <u>8,617,030</u> |
| | 785,565 | 8,166,560 | 8,952,125 |
| | December 31, 2017 | | |
| | Current Portion | Long-Term Portion | Total |
| Mortgage Note Receivable | 6,643 | 335,119 | 341,762 |

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, 2018 | Additions | Deletions/ Transfers | Balance December 31, 2018 |
|---|-------------------------------|---------------------------|-------------------------|---------------------------------|
| Capital Assets not Being Depreciated: | | | | |
| Land and Improvements | 23,039,656 | 1,068,385 | -0- | 24,108,041 |
| Construction in Progress | <u>12,300,141</u> | <u>11,777,348</u> | <u>(2,207,201)</u> | <u>21,870,288</u> |
| Total Capital Assets not Being Depreciated | 35,339,797 | 12,845,733 | (2,207,201) | 45,978,329 |
| Capital Assets Being Depreciated: | | | | |
| Lancaster Waste-to-Energy Facility | 145,815,182 | 890,504 | 20,625 | 146,726,311 |
| Accumulated Depreciation | (106,630,521) | (4,382,176) | 34,120 | (110,978,577) |
| Susquehanna Resource Management Complex | 132,489,049 | 2,217,925 | 1,396,627 | 136,103,601 |
| Accumulated Depreciation | (17,809,585) | (5,310,812) | 472,182 | (22,648,215) |
| Landfill Facility | 67,587,587 | 50,942 | 31,807 | 67,670,336 |
| Accumulated Depreciation | (60,052,642) | (755,289) | 9,877 | (60,798,054) |
| Transfer Station Complex | 26,186,752 | 188,520 | (15,243) | 26,360,029 |
| Accumulated Depreciation | (7,538,909) | (874,029) | 15,686 | (8,397,252) |
| Equipment | 21,362,839 | 2,318,919 | (761,081) | 22,920,677 |
| Accumulated Depreciation | (11,705,411) | (2,486,508) | 724,362 | (13,467,557) |
| Support Facilities | 9,887,428 | 66,593 | -0- | 9,954,021 |
| Accumulated Depreciation | (2,960,902) | (341,660) | -0- | (3,302,562) |
| Other Real Estate | 7,369,245 | 33,996 | -0- | 7,403,241 |
| Accumulated Depreciation | (1,227,193) | (224,518) | -0- | (1,451,711) |
| Administrative Building and Equipment | 3,968,046 | 219,607 | 132,214 | 4,319,867 |
| Accumulated Depreciation | <u>(2,954,420)</u> | <u>(204,103)</u> | <u>-0-</u> | <u>(3,158,523)</u> |
| Capital Assets Being Depreciated, net | <u>203,786,545</u> | <u>(8,592,089)</u> | <u>2,061,176</u> | <u>197,255,632</u> |
| Capital Assets, net | <u>239,126,342</u> | <u>4,253,644</u> | <u>(146,025)</u> | <u>243,233,961</u> |

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, 2018 | Cost of Construction | Expense/ Transfer to Capital Assets | Balance December 31, 2018 |
|--|-------------------------------|-------------------------|---|---------------------------------|
| Lancaster Waste-to-Energy Facility | 275,380 | 35,768 | (54,748) | 256,400 |
| Susquehanna Resource Management Complex | 2,021,800 | 34,669 | (1,868,811) | 187,658 |
| Landfill Facility | 9,853,715 | 11,380,039 | (150,518) | 21,083,236 |
| Transfer Station Complex | 149,246 | 298,636 | (133,124) | 314,758 |
| Muddy Creek Property | — | 28,236 | — | 28,236 |
| | 12,300,141 | 11,777,348 | (2,207,201) | 21,870,288 |

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 \$17.5 million in development costs associated with its landfill vertical expansion that was permitted in July 2017. As described in Note 15, an appeal to the permit was filed in August 2017 and in November 2018 the Appellants and the Authority entered into a Settlement Agreement regarding the Appeal. As of March 11, 2019, all appeals have been withdrawn.

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-four of the forty-seven properties at a cost of \$6,039,409. The Authority has resold fifteen of the twenty-four properties, net of costs, for \$2,199,299. Those fifteen properties were purchased by the Authority for \$2,400,207. The Authority also made improvements to these properties in the amount of \$81,474. In addition, the Authority has been relieved of the obligation to purchase two of the forty-seven properties.

On May 25, 2018, the Authority purchased two undeveloped tracts totaling 39.626 acres in Conoy Township located at River Road and Locust Grove Road from Steven J. Mutchler and Susan E. Mutchler for \$792,360.

On November 20, 2018, the Authority purchased an undeveloped 12.98 acre property in East Cocalico Township located at 425 South Muddy Creek Road, Denver, PA 17517 from Kasun & Associates, LLC. There is an existing land development plan for the property and the Authority has posted a letter of credit in the amount of \$287,013 with the Township to keep the land development plan in place. The Authority intends to develop the property as a satellite transfer station. The governmental approvals to allow such a project will take several years.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 7 - OTHER ASSETS, REAL ESTATE PURCHASES, and SALE COMMITMENTS (Continued)

In February 2018, the Authority entered 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. The sale to Almost Home Dog Adoption Center was concluded on February 15, 2019 as described in Note 19.

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

NOTE 8 - ACCRUED EXPENSES

Balances consisted of the following at December 31, 2018 and 2017:

| | 2018 | 2017 |
|--|------------------|------------------|
| Accrued Host Fees | 290,179 | 235,542 |
| Accrued DEP Recycling Fees | 771,027 | 764,826 |
| Accrued County Closure Fee | 29,856 | 29,793 |
| Accrued Haulers Rebate | 1,119,059 | 993,443 |
| Accrued Prepaid Rebate | 63,792 | 59,346 |
| Accrued Payroll | 1,129,889 | 613,556 |
| Current Portion of Nonqualified Deferred Compensation Plan Obligation | -0- | 643,246 |
| Payroll Taxes and Pension Plan Accrued and Withheld | 288,316 | 207,761 |
| Accrued Interest | 257,958 | 266,999 |
| Miscellaneous Accruals | 480,493 | 471,939 |
| | <u>4,430,569</u> | <u>4,286,451</u> |

NOTE 9 - LONG-TERM DEBT

Long-term debt at December 31, 2018, 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%.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

\$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.

Long-term debt consists of the following at December 31, 2018:

| | 2013 A Series | 2013 B Series | Total |
|---|-------------------|-------------------|--------------------|
| Principal Amount Due | 93,315,000 | 24,000,000 | 117,315,000 |
| Less: Current Portion | <u>4,330,000</u> | <u>-0-</u> | <u>4,330,000</u> |
| Long-Term Principal Due | 88,985,000 | 24,000,000 | 112,985,000 |
| Original Issue Premiums, Net of Accumulated Amortization | | | <u>4,801,264</u> |
| Long-Term Debt, net of Current Portion | | | 117,786,264 |

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 |

The following is a summary of the Authority's long-term debt transactions for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|--------------------------------|--------------------|--------------------|
| Debt Outstanding - January 1 | 121,440,000 | 125,465,000 |
| New Debt Issuance | -0- | -0- |
| Repayments | <u>(4,125,000)</u> | <u>(4,025,000)</u> |
| Debt Outstanding - December 31 | 117,315,000 | 121,440,000 |

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, 2018, are as follows:

| Year | Principal | Interest | Dauphin County Reimbursement ** | Net |
|-------------|--------------------|-------------------|--|--------------------|
| 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 | 5,265,000 | 4,951,163 | (960,000) | 9,256,163 |
| 2024 - 2028 | 30,430,000 | 20,649,677 | (4,800,000) | 46,279,677 |
| 2029 - 2033 | <u>62,950,000</u> | <u>12,128,452</u> | <u>(4,800,000)</u> | <u>70,278,452</u> |
| | 117,315,000 | 59,924,694 | (14,400,000) | 162,839,694 |

** 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, 2018 and 2017:

| | 2018 | 2017 |
|--|------------------|------------------|
| Net Other Postemployment Benefits (OPEB) | | |
| Obligation | 3,566,772 | 3,597,586 |
| Other | 34,876 | 34,876 |
| Nonqualified Deferred Compensation Plan Obligation | 335,715 | 259,681 |
| Capacity Reserves | 260,352 | -0- |
| Performance Deposit | 100,000 | -0- |
| Escrow Liability | <u>1,350,000</u> | <u>1,350,000</u> |
| | 5,647,715 | 5,242,143 |

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

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.

Restricted - Restricted net position is comprised of the following as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|--|------------------|-------------------|
| Restricted for Landfill Closure and Post-Closure | | |
| Care Costs | 8,396,852 | 10,164,740 |
| Other | <u>257,962</u> | <u>333,412</u> |
| | 8,654,814 | 10,498,152 |

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, 2018 and 2017, the balance of unrestricted net position is as follows:

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Board Designated Unrestricted Net Position: | | |
| Construction/Capital Reserve Fund | 13,635,666 | 26,196,435 |
| Revenue Reserve Fund | <u>8,326,623</u> | <u>8,208,119</u> |
| Total Board Designated Unrestricted Net Position | 21,962,289 | 34,404,554 |
| Undesignated Unrestricted Net Position | <u>13,199,325</u> | <u>605,478</u> |
| Total Unrestricted Net Position | 35,161,614 | 35,010,032 |

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, 2018 and 2017, of \$897,872 and \$755,142, 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, 2018 and 2017, were \$577,360 and \$477,726, respectively.

NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS

Description

The Authority maintains a single-employer defined benefit OPEB plan to provide postemployment health care insurance coverage. The Board of Directors is authorized to establish and amend the benefit provisions and contribution requirements for the plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue stand-alone financial statements.

Benefits Provided

The plan permits 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 (\$1,040 per year in 2018 and \$962 for 2017) 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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Employees Covered by Benefit Terms

At January 1, 2018, the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 3 |
| Inactive Employees Entitled to but not yet Receiving Benefits | 0 |
| Active Employees | <u>132</u> |
| | 135 |

Total OPEB Liability

The Authority's total OPEB liability of \$3,566,772 was measured as of January 1, 2018, and was determined by an actuarial valuation as of January 1, 2018.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the January 1, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Discount rate: 3.0%, Based on 20-Year High-Grade Municipal Rate Index
- Long Term Expected Rate of Return: N/A, the Plan is Unfunded
- Actuarial Cost Method: Entry Age Normal, Level Percent of Pay
- Healthcare Cost Trend: 5.5% for 2018, decreasing roughly 1.0% per year to an ultimate rate of 4.7% for 2020 and later years.
- Retirees' Share of Benefit-Related Costs: 100.0% of Premium
- Mortality Rates:
 - Preretirement - RP - 2014 Employee (Male and Female)
 - Postretirement - RP - 2014 Healthy Annuitant (Male and Female)

The actuarial assumptions used in the January 1, 2018, valuation were based on the results of an actuarial experience study for the period ended January 1, 2018.

Changes in the Total OPEB Liability

| | 2018 | 2017 |
|--|------------------------|-------------------------|
| Balance, Beginning | 3,597,586 | 2,264,234 |
| Changes for the Year: | | |
| Service Cost | 137,261 | 118,967 |
| Interest | 105,877 | 93,822 |
| Differences Between Expected and Actual Experience | | (39,404) |
| Changes of Assumptions | | 1,235,281 |
| Benefit Payments | <u>(273,952)</u> | <u>(75,314)</u> |
| Net Changes | <u>(30,814)</u> | <u>1,333,352</u> |
| Balance, Ending | 3,566,772 | 3,597,586 |

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability for the plan would be if it were calculated using a discount rate that is 1.0% lower or 1/0% higher than the current discount rate:

| | |
|------------------------------------|-----------|
| Total OPEB Liability | |
| 2.0% Discount Rate (1.0% Decrease) | 3,864,923 |
| 3.0% Discount Rate (Current Rate) | 3,566,772 |
| 4.0% Discount Rate (1.0% Increase) | 3,333,297 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability for the plan would be if it were calculated using a healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

| | |
|--|-----------|
| Total OPEB Liability | |
| 4.4% Decreasing to 3.7% (1% Decrease) | 3,258,268 |
| 5.4% Decreasing to 4.7% (Current Rate) | 3,566,772 |
| 6.4% Decreasing to 5.7% (1% Increase) | 3,923,452 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Authority recognized OPEB expense of \$441,131. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Contributions and Benefit Payments After the Measurement Date | 289,433 | |
| Differences Between Expected and Actual Experience | | 32,880 |
| Changes of Assumptions | <u>1,030,764</u> | <u>32,880</u> |
| | 1,320,197 | 32,880 |

The deferred outflows or resources of \$289,433 related to OPEB resulting from the Authority's benefit payments after the measurement date will be recognized as a reduction in the total or net OPEB liability in the year ended December 31, 2019.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Amounts reported as deferred outflows or resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year ended December 31: | |
|--------------------------------|----------------|
| 2019 | 197,993 |
| 2020 | 197,993 |
| 2021 | 197,993 |
| 2022 | 197,993 |
| 2023 | 197,993 |
| Thereafter | <u>7,919</u> |
| | 997,884 |

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 \$3,634,430 and \$3,639,330 at December 31, 2018 and 2017, 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, 2018 and 2017, the Authority received reimbursement from the fund for various claims totaling \$186,327 and \$62,670, 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, 2018, the Authority has not been notified of any experience adjustment or other obligation under the program.

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

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - RISK MANAGEMENT (Continued)

Health Insurance

The Authority is a member of the Intergovernmental Insurance Cooperative (IIC) through which it self-insures employee health claims. Claims are administered by a third party. During the years ended December 31, 2018 and 2017, 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 \$1,337,511 in the aggregate. At December 31, 2018, 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.

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.

Forwards Contracts

As a baseload electric generator in PJM, the Authority has capacity commitments for both its Lancaster 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. In 2018, the Authority implemented a three-year plan to build a reserve equal to half of the maximum exposure of one and half times the annual capacity revenue. A reserve of \$260,352 was recorded as of December 31, 2018.

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.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

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. In 2018, the City of Harrisburg delivered 38,315 tons, which resulted in a rebate of \$31,500.

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.

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

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

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.

Steam Sale Agreement

On June 22, 2016, the Authority entered into an Equipment and Facilities Agreement and a Utilities Agreement with Perdue Agribusiness LLC ("Perdue"). 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 \$3,582,016 and \$290,014 for the years ended December 31, 2018 and 2017, respectively. For the year September 1, 2017 through August 30, 2018, Perdue fell short of \$2,745,120, the guaranteed minimum steam fee, by \$590,051. After making certain voluntary adjustments, the Authority sent Perdue an invoice in the amount of \$515,051. Perdue has refused to pay the invoice. The Authority believes the amount is due and intends to vigorously pursue payment under the arbitration provisions of the Utilities Agreement with Perdue.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

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 is secured by a first lien security interest 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.

At December 31, 2018, the Authority has advanced \$8,385,122 on the improvement loan.

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 2017. In addition, in November 2017, a group composed of primarily the same appellants appealed both the local Zoning Permit for the vertical expansion and the underlying Zoning Ordinance. In November 2018, the Authority and the Appellants entered into a Settlement Agreement concerning the Appeals. The Settlement is contingent upon DEP approving the Visual Synthesis Plan and related Minor Permit Modification. Approval is expected. Should the Visual Synthesis Plan and related Minor Permit Modification not be approved, 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.

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, 2018 and 2017. At each reporting date, the liability recognized is based upon capacity utilized to-date at each site.

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - COMMITMENTS and CONTINGENCIES (Continued)

Landfill Closure and Post-Closure Care Costs (Continued)

Closure tasks are carried on throughout the periods the landfill is accepting wastes; post-closure monitoring and maintenance costs are incurred for thirty years after all closure requirements are approved by a regulatory agency and the facility is no longer accepting wastes. At December 31, 2018, 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:

| | 2018 | 2017 |
|--|------------------|------------------|
| Frey Farm Landfill** | | |
| Total Estimated Closure and Post-Closure Costs | 27,616,765 | 26,084,831 |
| Capacity Used at December 31 | <u>58.10%</u> | <u>54.34%</u> |
| Closure and Post-Closure Costs Recognized | 16,032,911 | 14,174,387 |
| Closure and Post-Closure Costs Paid To-Date | <u>8,896,765</u> | <u>8,796,831</u> |
| Net Liability | 7,136,146 | 5,377,556 |
| Closure and Post-Closure Costs Remaining to be Recognized | 11,583,854 | 11,910,432 |
| | | |
| Date that Capacity will be Reached | 2038 | 2038 |
| | | |
| Susquehanna Resource Management Complex Ashfill *** | | |
| Total Estimated Closure and Post-Closure Costs | 3,480,000 | 3,398,000 |
| Capacity Used at December 31 | <u>86.5%</u> | <u>86.5%</u> |
| Closure and Post-Closure Costs Recognized | 3,480,000 | 3,398,000 |
| Closure and Post-Closure Costs Paid To-Date | <u>-0-</u> | <u>-0-</u> |
| Net Liability | 3,480,000 | 3,398,000 |
| Closure and Post-Closure Costs Remaining to be Recognized | -0- | -0- |
| | | |
| Date that Capacity will be Reached | 2020 | 2020 |

** 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.

*** 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, 2018 and 2017. 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:

| | 2018 | 2017 |
|--------------------------|----------------|----------------|
| Creswell Landfill | | |
| Current Portion | 150,000 | 144,000 |
| Long-Term Portion | <u>150,000</u> | <u>287,000</u> |
| | 300,000 | 431,000 |

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 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 2018 and 2017, are as follows:

| | 2018 | 2017 |
|---|------------------|------------------|
| Closure and Post-Closure Care | | |
| Frey Farm Landfill | | |
| Capacity Used in Current Year | 1,026,071 | 711,742 |
| Change in Estimate | <u>832,453</u> | <u>(714,696)</u> |
| | 1,858,524 | (2,954) |
| Susquehanna Resource Management Complex Ashfill | | |
| Change in Estimate | 82,000 | 194,000 |
| Post-Closure Care | | |
| Creswell Landfill | | |
| Difference Between Actual and Estimated | | |
| Costs - Current Year | 33,629 | (19,261) |
| Change in Estimate | <u>13,000</u> | <u>19,000</u> |
| | 46,629 | (261) |
| | 1,987,153 | 190,785 |

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, 2018, the letters of credit issued totaled \$16,640,114 and are secured by deposits of \$20,560,885 with a margined value of \$17,888,001 (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, 2018 and 2017, 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)

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Sites | | |
| 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 | 36,179 | 36,179 |
| Total Closure Collateral | 16,640,114 | 16,640,114 |

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 \$1.1 million in favor of third parties.

Agreements to Sell Real Estate

The Authority acquired land in Conoy Township from Talen Energy for \$1,510,000. 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, 2018.

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 40, 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, 2018, the Authority has open construction contract commitments totaling \$1,409,314 for various projects at Authority facilities. This amount includes \$115,900 of retainage which is included in accounts payable at December 31, 2018.

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, 2018 and 2017:

| | 2018 | | 2017 | |
|------------|-----------|------------------------|-----------|------------------------|
| | Sales | Accounts Receivable | Sales | Accounts Receivable |
| Customer A | 8,777,511 | 627,386 | 8,458,238 | 620,540 |
| Customer B | 8,496,928 | 753,399 | 8,277,202 | 686,146 |

Energy revenues include transactions with major customers as follows for the years ended December 31, 2018 and 2017:

| | 2018 | | 2017 | |
|------------|-----------|------------------------|-----------|------------------------|
| | Sales | Accounts Receivable | Sales | Accounts Receivable |
| Customer D | 4,391,079 | 414,280 | 4,714,365 | 407,259 |
| Customer E | 7,144,065 | 628,865 | 6,995,371 | 743,059 |

NOTE 17 - RELATED PARTY TRANSACTIONS

The Authority leases a residential property in East Hempfield Township to its Co-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 2018 and 2017, was \$24,000. On January 11, 2019, the employment of the executive was terminated due to retirement. The initial term will expire in January 2024.

NOTE 18 - CHANGE in ACCOUNTING PRINCIPLE

In conjunction with implementation of GASB Statement No. 75, the Authority restated the beginning net position. In prior years, the Authority accounted for other postemployment benefits (OPEBs) in accordance with GASB Statement No. 45, which permitted amortization of the initial unfunded OPEB liability for a period of thirty years. Accordingly, net position as of January 1, 2017, has been restated as follows:

| | |
|---|------------------------|
| Net Position as Previously Reported on December 31, 2016 | 159,974,434 |
| Prior Period Adjustment: | |
| Total OPEB Liability | (1,537,175) |
| Deferred Outflows of Resources | 75,314 |
| Total Prior Period Adjustment | (1,461,861) |
| Net Position as Restated, January 1, 2017 | 158,512,573 |

Lancaster County Solid Waste Management Authority

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 19 - SUBSEQUENT EVENTS

In March 2019, a settlement agreement was executed with the appellants to the permit modification granted by PADEP for vertical expansion at Frey Farm Landfill. The settlement agreement requires the Authority to purchase a residential property if requested to do so by the property owners. Management estimates the value of the property to be \$400,000 to \$500,000, although the property has not yet been appraised. The agreement also imposes several other requirements upon the Authority, primarily related to a visual mitigation plan for the site and limiting future landfill expansion.

On February 15, 2019, the Authority conveyed a 12.896 acre parcel of land to Almost Home Dog Adoption Center, a 501(c)3 nonprofit organization, for \$133,215. The Authority credited Almost Home Dog Adoption Center \$70,000 for completed and substantiated land development planning costs.

Lancaster County Solid Waste Management Authority

SCHEDULE of CHANGES in TOTAL OPEB LIABILITY and RELATED RATIOS -

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN - Unaudited

Last 10 Fiscal Years

| | 2018 | 2017 |
|--|----------------------------|----------------------------|
| Total OPEB Liability | | |
| Service Cost | \$ 137,261 | \$ 118,967 |
| Interest | 105,877 | 93,822 |
| Change of Benefit Terms | -0- | -0- |
| Differences Between Expected and Actual Experience | -0- | (39,404) |
| Changes of Assumptions | -0- | 1,235,281 |
| Benefit Payments | <u>(273,952)</u> | <u>(75,314)</u> |
| Net Change in Total OPEB Liability | (30,814) | 1,333,352 |
| Total OPEB Liability - Beginning | <u>3,597,586</u> | <u>2,264,234</u> |
| Total OPEB Liability - Ending | <u>\$ 3,566,772</u> | <u>\$ 3,597,586</u> |
| Covered Payroll | 7,284,593 | 7,106,920 |
| Total OPEB Liability as a Percentage of Covered Payroll | 49.0% | 50.6% |

Note: Information is not available prior to 2017.

See independent auditors' report.

Lancaster County Solid Waste Management Authority

NOTES to REQUIRED SUPPLEMENTARY INFORMATION -

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

Last 10 Fiscal Years

Funding:

No assets are accumulated in a trust that meet the criteria included in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, to pay related benefits.

Changes of Assumptions:

Measurement period ending December 31, 2017:

Actuarial cost method was adjusted from Unit Credit method to Entry Age Normal.

Discount rate was reduced from 4.00% to 3.00%.

Salary growth changed from an annual rate of 0.00% to 2.50%.

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, 2018 and 2017, and our report thereon dated April 2, 2019, 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 49 and the concise statements for publication on page 50 as of and for the years ended December 31, 2018 and 2017, 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 2018 and 2017 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, 2018 and 2017, 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, 2016, 2015, and 2014, 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 49 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 2016, 2015, and 2014 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 49 is fairly stated in all material respects in relation to the financial statements from which it has been derived.

April 2, 2019
Lancaster, Pennsylvania

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

SERVICE | ANSWERS | TRUST

Lancaster County Solid Waste Management Authority

SCHEDULES of CONDENSED REVENUES and EXPENSES

Years Ended December 31, 2018, 2017, 2016, 2015, and 2014

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|---------------------------|
| OPERATING REVENUES | | | | | |
| Tipping Fees | \$ 71,592,940 | \$ 65,724,017 | \$ 61,760,388 | \$ 59,545,228 | \$ 57,350,288 |
| Energy | 17,696,620 | 14,409,009 | 14,738,431 | 18,401,006 | 18,706,329 |
| Transportation and Other | <u>3,031,592</u> | <u>3,150,996</u> | <u>2,439,187</u> | <u>2,745,659</u> | <u>4,362,067</u> |
| Total Operating Revenues | 92,321,152 | 83,284,022 | 78,938,006 | 80,691,893 | 80,418,684 |
| OPERATING EXPENSES | | | | | |
| Lancaster Waste-to Energy Facility | 22,112,494 | 22,723,842 | 22,476,694 | 23,230,173 | 22,476,602 |
| Susq. Resource Mgmt Complex | 18,824,726 | 18,630,613 | 18,535,832 | 18,283,527 | 19,127,931 |
| Depreciation | 14,492,523 | 13,609,605 | 13,171,084 | 12,642,052 | 12,187,390 |
| Landfills | 5,213,251 | 4,553,918 | 4,284,513 | 4,319,801 | 4,106,198 |
| Transfer Station Complex | 4,933,579 | 3,765,041 | 3,241,425 | 3,051,474 | 3,141,323 |
| Closure and Post-Closure Care | 1,987,153 | 190,785 | (234,865) | 592,718 | 1,620,586 |
| Household Hazardous Waste | <u>489,036</u> | <u>502,269</u> | <u>475,214</u> | <u>449,586</u> | <u>386,158</u> |
| Total Operating Expenses | 68,052,762 | 63,976,073 | 61,949,897 | 62,569,331 | 63,046,188 |
| SUPPORT EXPENSES | <u>14,510,055</u> | <u>12,496,539</u> | <u>11,911,845</u> | <u>11,065,311</u> | <u>10,645,333</u> |
| Total Operating and Support Expenses | <u>82,562,817</u> | <u>76,472,612</u> | <u>73,861,742</u> | <u>73,634,642</u> | <u>73,691,521</u> |
| OPERATING INCOME | 9,758,335 | 6,811,410 | 5,076,264 | 7,057,251 | 6,727,163 |
| INTEREST and INVESTMENT EARNINGS | 1,086,299 | 718,542 | 673,671 | 601,975 | 1,049,363 |
| INTEREST EXPENSE | (4,586,685) | (4,681,613) | (4,769,778) | (5,139,214) | (5,591,063) |
| NET OTHER NONOPERATING REVENUES (EXPENSES) and CAPITAL CONTRIBUTIONS | <u>841,057</u> | <u>5,521,010</u> | <u>1,660,585</u> | <u>2,626,575</u> | <u>(1,883,657)</u> |
| CHANGES in NET POSITION | <u>\$ 7,099,006</u> | <u>\$ 8,369,349</u> | <u>\$ 2,640,742</u> | <u>\$ 5,146,587</u> | <u>\$ 301,806</u> |

See independent auditors' report on supplementary information.

Lancaster County Solid Waste Management Authority

Concise Statements for Publication

STATEMENTS of NET POSITION

December 31, 2018 and 2017

| | 2018 | 2017 |
|--|------------------------------|------------------------------|
| ASSETS | | |
| Current Assets | \$ 39,558,739 | \$ 48,273,609 |
| Restricted Assets | 29,967,763 | 30,078,554 |
| Other Assets | 11,050,744 | 411,619 |
| Real Estate, Facilities, and Equipment | 243,233,961 | 239,126,342 |
| Deferred Outflows of Resources | <u>1,320,197</u> | <u>1,509,233</u> |
| TOTAL ASSETS | 325,131,404 | 319,399,357 |
| LIABILITIES and NET ASSETS | | |
| Current Liabilities | 16,917,471 | 15,521,882 |
| Long-Term Liabilities | 134,200,125 | 136,956,149 |
| Deferred Inflows of Resources | <u>32,880</u> | <u>39,404</u> |
| TOTAL LIABILITIES | <u>151,150,476</u> | <u>152,517,435</u> |
| NET POSITION | <u>\$ 173,980,928</u> | <u>\$ 166,881,922</u> |

STATEMENTS of REVENUES, EXPENSES, and CHANGES in NET POSITION

Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---------------------------------------|----------------------------|----------------------------|
| OPERATING REVENUES | \$ 92,321,152 | \$ 83,284,022 |
| OPERATING and SUPPORT EXPENSES | <u>82,562,817</u> | <u>76,472,612</u> |
| OPERATING INCOME | 9,758,335 | 6,811,410 |
| NET NON-OPERATING (EXPENSES) | (2,659,329) | (4,689,266) |
| CAPITAL CONTRIBUTIONS | <u>-0-</u> | <u>6,247,205</u> |
| CHANGES in NET POSITION | <u>\$ 7,099,006</u> | <u>\$ 8,369,349</u> |

See independent auditors' report on supplementary information.