

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

YEARS ENDED DECEMBER 31, 2016 AND 2015

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

For the Years Ended December 31, 2016 AND 2015

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-3
MANAGEMENTS DISCUSSION AND ANALYSIS	4-12
FINANCIAL STATEMENTS:	
Statements of Net Position	13-14
Statements of Revenues, Expenses and Changes in Net Position	15
Statements of Cash Flows	16-17
Statements of Fiduciary Net Position	18
Statements of Changes in Fiduciary Net Position	19
Notes to Financial Statements	20-56
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Changes in the Authority's Net Pension Liability	57
Schedule of Authority Contributions	58
Other Postemployment Benefits – Schedules of Funding Progress	59
Other Postemployment Benefits – Schedules of Employer Contributions	60
OTHER SUPPLEMENTARY INFORMATION:	
Combining Schedule of Revenues, Expenses and Changes in Net Position – Suburban Wastewater Fund	61

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lehigh County Authority
Allentown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Lehigh County Authority, Pennsylvania, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Lehigh County Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Lehigh County Authority's 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 opinions 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 opinions.

Harrisburg

830 Sir Thomas Court, Suite 100
Harrisburg, PA 17109
717.561.9200 Fax 717.561.9202

Philadelphia

2370 York Road, Suite A-5
Jamison, Pa 18929
215.918.2277 Fax 215.918.2302

Pittsburgh

3800 McKnight E. Drive, Suite 3805
Pittsburgh, PA 15237
412.367.7102 Fax 412.367.7103

Greensburg

210 Tollgate Hill Road
Greensburg, PA 15601
724.834.2151 Fax 724.834.5969

Zelenkofske Axelrod LLC

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Lehigh County Authority, Pennsylvania, as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of Governmental Accounting Standards Board Pronouncements

As discussed in Note 1 to the financial statements, in 2016 Lehigh County Authority adopted the provisions of Governmental Accounting Standard Board's Statement No. 72, "*Fair Value Measurement and Application*", GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*", and GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*". Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and the schedule of changes in the net pension liability, schedule of contributions for the pension plan, and schedule of funding progress and employer contributions for post employment benefits other than pensions on pages 57 through 60 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lehigh County Authority's basic financial statements. The Combining Schedule of Revenues, Expenses and Changes in Net Position – Suburban Wastewater Fund is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

Zelenkofske Axelrod LLC

The Combining Schedule of Revenues, Expenses and Changes in Net Position – Suburban Wastewater Fund on page 61 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Revenues, Expenses and Changes in Net Position – Suburban Wastewater Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Zelenkofske Axelrod LLC

ZELENKOFSKE AXELROD LLC

Harrisburg, Pennsylvania
April 27, 2017



1053 SPRUCE ROAD * P.O. BOX 3348 * ALLENTOWN, PA 18106-0348
610-398-2503 * FAX 610-398-8413 * email: service@lehighcountyauthority.org

INTRODUCTION

Lehigh County Authority is pleased to present its Annual Financial Report for the year ended December 31, 2016. The Authority is a water and wastewater agency created by the County of Lehigh, Pennsylvania in 1966 under the Pennsylvania Municipality Authorities Act. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Authority's basic financial statements.

The Authority adopted the provisions of GASB 68 on a prospective basis; therefore the effects of the adoption of GASB 68 are reflected only in the 2016 and 2015 amounts.

Information in this MDA is presented under the following headings:

- Authority Activities and Highlights
- Overview of the Financial Statements
- Financial Analysis
- Capital Assets & Service Concession Arrangement
- Debt Administration
- Economic Factors and Rates
- Contacting the Authority's Financial Management

MANAGEMENT'S DISCUSSION AND ANALYSIS

Authority Activities and Highlights

2016 marked the third full year of operations for the Authority's City Division, which was created on August 7, 2013, when the Authority acquired the rights to lease and operate the City of Allentown's Water and Wastewater Systems for a term of 50 years. This transaction, which was memorialized by the Allentown Water and Sewer Utility System Concession and Lease Agreement, was financed through the issuance of \$307,683,599 of bonds.

The assets of the Authority exceeded its liabilities at the close of 2016 by \$155,588,909 (net position). The portion of net position that can be used to meet the Authority's on-going obligations to customers and creditors, unrestricted net position, is \$1,944,553.

Operating revenues increased from \$47,477,636 in 2015 to \$58,986,423 in 2016 due to increased Suburban Wastewater Revenues along with increased City Revenues as a result of an unfavorable impact from recognition of credits against revenues on Signatory Wastewater volumes in 2015. Operating expenses increased from \$42,312,587 in 2015 to \$50,752,997 in 2016 due to the higher treatment & transportation costs on higher Signatory volumes.

Overview of the Financial Statements

Lehigh County Authority's basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows and notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements themselves.

The Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to private sector business.

Statement of net position: The statement of net position presents the financial position of the Authority. It presents information on the Authority's assets, deferred outflows of resources, and liabilities, with the difference between the three 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.

Statement of revenues, expenses, and changes in net position: The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. accrued wages).

Statement of cash flows: The statement of cash flows presents information on the effects changes in assets, liabilities and operations have on cash during the course of the fiscal year.

Statement of fiduciary net position: This statement presents the financial position of the Authority's OPEB Trust Fund. It presents information on the funds, assets, and liabilities, with the difference between two reported as net position held in trust for employees' post-retirement benefits.

Statement of changes in fiduciary net position: The statement presents information on the contributions, changes in the fair value of investments and expenses of the Authority's Other Post Employment Benefit (OPEB) Trust Fund.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the Authority-wide financial statements.

Proprietary funds: The Authority maintains proprietary funds. Enterprise funds are used to report functions presented as business-type activities, accounting for its suburban water, suburban wastewater, and city division operations.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's obligation to provide pension benefits and OPEB for its employees.

Financial Analysis

Net Position (City Division):

A summary of the Authority's City Division Statements of Net Position at December 31 are presented as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Assets, Unrestricted	\$ 15,194,720	\$ 16,661,831	\$ 11,620,355
Non-current Assets:			
Restricted	52,012,045	58,956,009	71,512,934
Capital Assets, Net	1,436,157	1,738,299	1,446,233
Other Assets, Net	<u>248,921,598</u>	<u>244,834,004</u>	<u>242,534,439</u>
Total Assets	317,564,520	322,190,143	327,113,961
Deferred Outflows of Resources	<u>1,738,603</u>	<u>925,625</u>	<u>-</u>
Total Assets & Deferred Outflows	\$ 319,303,123	\$ 323,115,768	\$ 327,113,961
Current Liabilities	\$ 2,753,830	\$ 4,073,094	\$ 2,396,357
Non-current Liabilities	<u>352,376,338</u>	<u>346,360,062</u>	<u>340,161,610</u>
Total Liabilities	\$ 355,130,168	\$ 350,433,156	\$ 342,557,967
Net Position:			
Net Investment in Capital Assets	\$ 1,014,508	\$ 1,007,853	\$ 406,170
Unrestricted	<u>(36,841,553)</u>	<u>(28,325,241)</u>	<u>(15,850,176)</u>
Total Net Position	<u>\$ (35,827,045)</u>	<u>\$ (27,317,388)</u>	<u>\$ (15,444,006)</u>

As would be expected for a water/sewer authority, the largest portion of the City Division's assets are Capital Assets and Other Assets (78.4%). These categories reflect the Authority's total investment in the leased Concession assets and the purchased rolling stock and other fleet of vehicles, less any depreciation and amortization.

- Current and noncurrent assets other than capital assets and other assets in 2016 decreased \$8,411,075, or 11.1%. This decrease was primarily due to the use of the funds set aside for capital projects.
- Capital assets, net and other assets, net in 2016 increased by \$3,785,452, which was the net increase after considering new acquisitions offset by depreciation and amortization of \$5,834,285.
- Current liabilities in 2016 decreased \$1,319,264 from 2015. This decrease was primarily due to decreases in trade and construction payables.
- Noncurrent liabilities in 2016 increased \$6,016,276, or 1.7% from 2015. The increase was primarily due to the increase in the net pension liability, accrued interest on the Capital Appreciation Bonds and the Discounted Future City Payments.

Net Position (Suburban Division):

A three-year condensed summary of the Authority's Suburban Division Statements of Net Position as of December 31 of each year is presented as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets, unrestricted	\$ 36,955,569	\$ 36,975,338	\$ 32,959,163
Non-current Assets:			
Restricted	8,441,763	8,585,979	8,061,883
Capital assets, net	189,152,068	184,958,647	187,821,867
Other assets, net	<u>4,149,187</u>	<u>4,666,540</u>	<u>3,964,200</u>
Total Assets	238,698,587	235,186,504	232,807,113
Deferred Outflows	<u>1,010,709</u>	<u>775,477</u>	<u>563,626</u>
Total Assets & Deferred Outflows	<u>\$ 239,709,296</u>	<u>\$ 235,961,981</u>	<u>\$ 233,370,739</u>

LEHIGH COUNTY AUTHORITY

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current liabilities	\$ 5,769,138	\$ 4,626,636	\$ 4,736,732
Non-current liabilities	<u>42,524,204</u>	<u>43,408,229</u>	<u>42,715,978</u>
Total Liabilities	<u>\$ 48,293,342</u>	<u>\$ 48,034,865</u>	<u>\$ 47,452,710</u>
Net position:			
Net Investment in Capital Assets	\$ 151,420,469	\$ 146,734,208	\$ 148,752,619
Restricted	1,209,379	1,209,239	1,209,103
Unrestricted	<u>38,786,106</u>	<u>39,983,669</u>	<u>35,956,307</u>
Total Net Position	<u>\$ 191,415,954</u>	<u>\$ 187,927,116</u>	<u>\$ 185,918,029</u>

Again, as would be expected for a water/sewer authority, the largest portion of the Suburban Division's total assets & deferred outflows are Capital Assets and Other Assets (80.6%). These categories reflect the Authority's total investment in the capital and other assets (e.g. infrastructure, buildings, machinery and equipment), less any depreciation and amortization.

- Current and noncurrent assets other than capital assets and other assets in 2016 decreased \$163,985, or 0.4%. This decrease was primarily due to lower cash balances from lower cash flows.
- Capital assets, net and other assets, net in 2016 increased \$3,676,068 or 1.9%. This was due to capital spending on projects.
- Current liabilities in 2016 increased \$1,142,502 or 24.7% from 2015. This increase was primarily due to increases in trade and construction payables.
- Noncurrent liabilities in 2016 decreased \$884,025 or 2.0% from 2015.

Changes in Net Position (City Division):

A summary of the Authority's City Division Statement of Revenue, Expenses and Changes in Net Position for the years ended December 31 are presented as follows:

Operating Revenues:			
User Charges	\$ 31,599,212	\$ 26,878,499	\$ 30,520,662
Other Income & Rent	<u>74,245</u>	<u>85,530</u>	<u>67,024</u>
Total Operating Revenues	<u>31,673,457</u>	<u>26,964,029</u>	<u>30,587,686</u>
Operating Expenses:			
Salaries & Administrative	10,026,536	9,490,741	9,702,305
Utilities, Supplies & Services	5,793,929	5,698,303	6,886,924
Treatment & Transportation	11,011	11,043	5,502
Depreciation & Amortization	<u>5,834,285</u>	<u>5,530,078</u>	<u>5,293,370</u>
Total Operating Expenses	<u>21,665,761</u>	<u>20,730,165</u>	<u>21,888,101</u>
Operating Income	<u>10,007,696</u>	<u>6,233,864</u>	<u>8,699,585</u>
Non-Operating Revenues (Expenses):			
Tapping & Capital Recovery Fees	\$ 1,170,915	\$ 236,343	\$ 58,278
Meter Sales	13,319	13,272	10,795
Inspection, Plan Reviews & Project Reimbursements	1,396,588	1,295,847	794,269
Interest Earnings	386,754	424,171	113,361
Other Income	821,530	543,291	820,668

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Interest Expense	(18,280,300)	(18,024,646)	(17,940,740)
Other Expense	<u>(4,026,159)</u>	<u>(2,047,608)</u>	<u>(1,543,675)</u>
Total Net Non-Operating Revenues (Expenses)	<u>(18,517,353)</u>	<u>(17,559,330)</u>	<u>(17,687,044)</u>
Increase (Decrease) in Net Position	<u>(8,509,657)</u>	<u>(11,325,466)</u>	<u>(8,987,459)</u>
Beginning Net Position, as restated	<u>\$ (27,317,388)</u>	<u>\$ (15,991,922)</u>	<u>\$ (6,456,547)</u>
Ending Net Position	<u>\$ (35,827,045)</u>	<u>\$ (27,317,388)</u>	<u>\$ (15,444,006)</u>

Year over year changes are as follows:

- Operating Revenue for 2016 for the City Division was \$31,673,457, compared to previous year of \$26,964,029 with most of the increase attributable to a rate increase, higher signatory revenues, and rebalancing of signatory revenues following a large credit given in 2015.
- Operating expenses, net of depreciation and amortization were \$21,665,761 compared to previous year of \$20,730,165, an increase of \$935,596.
- Operating Income, net of depreciation and amortization was \$10,007,696 compared to previous year of \$6,233,864, an increase of \$3,773,832.

It should be noted that interest expense of \$18,280,300 in 2016 is comprised of actual interest paid (\$13,047,721), accretion (\$2,862,150), amortization of the SCA Payable (\$2,053,809), and amortization of bond premium (\$316,620).

The City Division's Annual Debt Service Coverage Ratio exceeded the indenture requirement of 1.20.

Changes in net position (Suburban Division):

A condensed summary of the Authority's Suburban Division Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31 is presented below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues:			
User Charges	\$ 26,972,382	\$ 20,097,733	\$ 25,356,469
Other Income & Rent	<u>340,584</u>	<u>415,874</u>	<u>365,852</u>
Total Operating Revenues	<u>27,312,966</u>	<u>20,513,607</u>	<u>25,722,321</u>
Operating Expenses:			
Salaries & Administrative	3,078,832	2,477,334	2,381,532
Utilities, Supplies & Services	10,273,359	9,889,553	8,805,839
Treatment & Transportation	8,646,146	2,347,975	5,523,415
Depreciation & Amortization	<u>7,088,899</u>	<u>6,867,560</u>	<u>6,580,416</u>
Total Operating Expenses	<u>29,087,236</u>	<u>21,582,422</u>	<u>23,291,202</u>
Non-Operating Revenues (Expenses):			
Tapping & Capital Recovery Fees	\$ 1,591,549	\$ 2,661,318	\$ 605,395
Meter Sales	168,365	88,082	81,781
Inspection, Plan Reviews & Project Reimbursements	191,932	208,681	604,511
Interest Earnings	210,131	164,251	134,845
Other Income	113,416	54,443	134,888

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Interest Expense	(1,335,646)	(1,420,974)	(1,532,168)
Other Expense	<u>(222,336)</u>	<u>(148,865)</u>	<u>(171,459)</u>
Total Net Non-Operating Revenues (Expenses)	<u>\$ 717,411</u>	<u>\$ 1,606,936</u>	<u>\$ (142,207)</u>
Increase (Decrease) in Net Position before Capital Contributions	<u>\$ (1,056,859)</u>	<u>\$ 538,121</u>	<u>2,288,912</u>

Capital Contributions:

Grants	211,552	421,853	-
Capital Assets Provided by Developers & Other	<u>4,334,145</u>	<u>1,270,958</u>	<u>844,237</u>
Total Capital contributions	<u>4,545,697</u>	<u>1,692,811</u>	<u>844,237</u>
Increase (Decrease) in Net Position	<u>3,488,838</u>	<u>2,230,932</u>	<u>3,133,149</u>
Beginning Net Position, as restated	<u>\$ 187,927,116</u>	<u>\$ 185,696,184</u>	<u>\$ 182,784,880</u>
Ending Net Position	<u>\$ 191,415,954</u>	<u>\$ 187,927,116</u>	<u>\$ 185,918,029</u>

Changes in the Statements of Revenues, Expenses and Changes in Net Position were as follows:

- Operating Revenue in 2016 for the Suburban Division was \$27,312,966 compared to last year of \$20,513,607. The Suburban Division's Water Fund contributed \$8,815,007 in revenue compared to last year of \$8,644,432, while the Wastewater Fund added another \$18,497,959 compared to previous year of \$11,869,175. The primary driver for the increase in Wastewater Fund revenue was the rebalancing of signatory revenues following a large credit given in 2015.
- As an indication of the new growth in the Suburban Division territory, the following table illustrates the three year trend of Water System connections and Wastewater capacity sales to new and expanding users.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Water System # of Units Connected:			
Single Family Detached	95	92	115
Single Family Attached (Townhouses)	113	95	97
Apartments and Mobile Homes	288	0	0
Commercial	<u>34</u>	<u>14</u>	<u>6</u>
Total Water System Connections	<u>530</u>	<u>201</u>	<u>218</u>
Wastewater Capacity Sales in Gallons:			
Residential	87,161	39,025	46,384
Commercial	<u>14,634</u>	<u>234,367</u>	<u>1,225</u>
Total Sales	<u>101,795</u>	<u>273,392</u>	<u>47,609</u>

The table reflects an increase in new Water System connections for both detached and attached single family homes, apartments, and commercial properties. Wastewater capacity sales trended lower primarily as a result of residential growth concentration vs. commercial growth experienced in 2015.

- The Suburban Water System purchased 6 million gallons a day from the interconnection with its City Division. The purchase obligation will grow to 7 mgd in 2017. This added capacity is projected to meet the Authority's needs for at least ten years.
- The Suburban Division's Annual Water System Operating Coverage, which is determined by dividing net operating revenues by annual debt service, was above the 110% required by the Suburban Water Bond Indenture.

Changes in Net Position (Consolidated):

A summary of the Authority's Statement of Changes in Net Position Suburban Division is presented as follows:

Statement of Changes in Net Position Year Ended December 31, 2016

	<u>Beginning Balance</u>	<u>Increased / (Decreased)</u>	<u>Ending Balance</u>
Net Investment in Capital			
Assets	\$ 146,734,208	\$ 4,686,261	\$ 151,420,469
Restricted Net Position	1,209,239	140	1,209,379
Unrestricted Net Position	<u>39,983,669</u>	<u>(1,197,563)</u>	<u>38,786,106</u>
 Total Net Position	 <u>\$ 187,927,116</u>	 <u>\$ 3,488,838</u>	 <u>\$ 191,415,954</u>

Other Selected Information:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Equivalent Fulltime Employees at Year-End	148	148	150
Units Served:			
<u>Suburban Division:</u>			
Water – Residential	20,788	20,292	20,109
Water – Industrial & Commercial	<u>700</u>	<u>670</u>	<u>649</u>
Total Water Billable Units	21,488	20,962	20,758
Wastewater Collection – Residential	2,614	2,553	2,505
Wastewater Collection – Commercial	<u>125</u>	<u>124</u>	<u>122</u>
Total Wastewater Billable Units	2,739	2,677	2,627
<u>City Division:</u>			
Water:			
Water – Residential	41,615	41,588	41,615
Water – Industrial & Commercial	<u>5,147</u>	<u>5,160</u>	<u>5,166</u>
Total Water Billable Units	46,762	46,748	46,781
Wastewater:			
Wastewater – Residential	41,593	41,567	41,584
Wastewater – Commercial	<u>5,137</u>	<u>5,150</u>	<u>5,166</u>
Total Wastewater Billable Units	46,730	46,717	46,750
 Customers:	 <u>2016</u>	 <u>2015</u>	 <u>2014</u>
<u>Suburban Division:</u>			
Water – Residential	19,085	18,867	18,679
Water – Industrial & Commercial	<u>696</u>	<u>671</u>	<u>649</u>
Total Water Customers	19,781	19,538	19,328
Wastewater Collection – Residential	2,254	2,196	2,111
Wastewater Collection – Commercial	<u>121</u>	<u>120</u>	<u>117</u>
Total Wastewater Customers	2,375	2,316	2,228
<u>City Division:</u>			
Water – Residential	30,329	30,310	30,305
Water – Industrial & Commercial	<u>3,019</u>	<u>3,031</u>	<u>3,032</u>

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Water Customers	33,348	33,341	33,337
Wastewater Collection – Residential	30,307	30,289	30,284
Wastewater Collection – Commercial	<u>3,009</u>	<u>3,019</u>	<u>3,022</u>
Total Wastewater Customers	33,316	33,308	33,306
Ratios			
Suburban Division:			
Ratio of Operating Revenue to:			
Operating Expenses, Net of Depreciation & Amortization	1.23	1.39	1.58
Total Assets	0.11	0.09	.110
Total Net Position	0.14	0.11	.138
Debt Related Ratios:			
Net Position to Long-Term Debt	4.50	4.33	4.44
Current Ratio (Current Assets/Current Liabilities)	6.41	7.99	6.95
City Division:			
Ratio of Operating Revenue to:			
Operating Expenses, Net of Depreciation & Amortization	1.96	1.77	1.84
Total Assets (Annualized)	0.10	0.08	.094
Total Net Position	N/A	N/A	N/A
Debt Related Ratios:			
Net Position to Long-Term Debt	N/A	N/A	N/A
Current Ratio (Current Assets/Current Liabilities)	5.52	4.09	4.85

Capital Contributions

The Authority received grants related to construction in 2016 of \$211,552 compared to \$421,853 last year. Other major source of capital contributions is derived from developer installed Systems donated to the Authority as \$4,334,145 was received in 2016 compared to \$1,270,958 in 2015.

Capital Assets & Service Concession Arrangement:

The largest investment in the Authority's history occurred on August 7, 2013 with the financing of the acquisition of the City of Allentown's Water and Sewer System through a 50 year lease concession. The Authority's Net Capital Investment in intangible and other assets increased from \$243,618,254 in 2015 to \$247,290,575 in 2016, and the City Divisions net capital assets decreased from \$1,738,299 in 2015 to \$1,436,157 in 2016. More detail on the Service Concession Arrangement can be found in Note 6 to the financial statements.

Net capital assets in the Suburban Systems increased by \$4,193,421. This increase can be attributed to increased accumulated depreciation which partially offset capital projects executed in 2016. More detail on the Authority's capital assets can be found in Note 5 to the financial statements.

Debt Administration:

In 2013 the Authority issued \$307,683,599 million in three series of bonds to fund the upfront payment to the City of Allentown, capital improvements, create various reserves necessary under the Indenture and to fund financing and other transaction costs related to the Concession. Increases to debt in 2016 consisted of additional draws on one of the Authority’s Notes Payable and accreted interest on the 2013 Series B Capital Appreciation Revenue Bonds.

See note 8 of the Notes to the Financial Statements for further detail on outstanding debt.

Economic Factors and Rates:

Suburban Division:

From the Suburban Division perspective, the Authority elected to keep water rates constant in 2016 which was the third consecutive year without a rate increase. This was based on the low to moderate growth in the System and the benefit of continued efficiencies provided by shared services with the City Division. The Suburban Division’s rates continue to be among the lowest in the Lehigh Valley region.

With higher treatment and transportation costs from the former City of Allentown water and wastewater departments and significant maintenance required on the Authority’s interceptor System, annual Wastewater rate increases have been enacted since 2007. The last wastewater collection system rate increase was on January 1, 2013, a 5% increase.

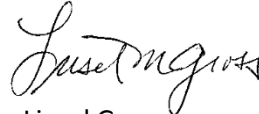
City Division:

City Division rates increased by 2.5% in January 2016 per the Concession agreement.

Contacting the Authority’s Financial Management:

This financial report is designed to provide our customers, creditors and funding agencies with a general overview of the Authority’s finances and to show the Authority’s accountability for the money it receives. If you have any questions about this report or need additional information, contact Edward C. Klein, the Lehigh County Authority’s Chief Financial Officer, P.O. Box 3348, Allentown, PA 18106.

Submitted by,



Liesel Gross
Chief Executive Officer



Edward C. Klein
Chief Financial Officer

LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA

STATEMENTS OF NET POSITION
December 31, 2016 AND 2015

- ASSETS AND DEFERRED OUTFLOWS OF RESOURCES-

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Current Assets:								
Cash and Cash Equivalents (Note 2)	\$ 4,168,546	\$ 5,007,038	\$ 10,936,821	\$ 12,098,707	\$ 6,428,690	\$ 8,269,836	\$ 21,534,057	\$ 25,375,581
Certificates of Deposit (Note 2)	8,248,825	7,480,579	8,332,560	7,708,624	-	-	16,581,385	15,189,203
Accounts Receivable:								
Customers	1,443,375	1,375,443	3,058,247	2,180,335	5,724,348	5,834,588	10,225,970	9,390,366
Financing Contracts (Note 4)	-	-	303,306	563,801	-	-	303,306	563,801
Others	177,841	166,870	66,704	40,076	2,639,600	2,270,555	2,884,145	2,477,501
Due from (to) Other Funds (Note 9)	1,428,079	1,393,873	(1,449,244)	(1,372,544)	21,165	(21,329)	-	-
Inventory	45,359	63,915	-	-	-	-	45,359	63,915
Accrued Interest Receivable	11,737	9,063	10,183	6,127	2,158	352	24,078	15,542
Prepaid Expenses	91,007	137,932	82,223	115,499	378,759	307,829	551,989	561,260
Total Current Assets	15,614,769	15,634,713	21,340,800	21,340,625	15,194,720	16,661,831	52,150,289	53,637,169
Noncurrent Assets:								
Restricted:								
Cash and Cash Equivalents (Note 2)	2,827,830	2,714,754	336,972	336,651	33,872,165	30,816,129	37,036,967	33,867,534
Certificates of Deposit (Note 2)	925,498	2,025,450	-	-	-	-	925,498	2,025,450
Investment U.S. Treasury Obligations (Note 2)	-	-	-	-	18,139,880	28,139,880	18,139,880	28,139,880
Developer Escrow Deposit (Note 3)	4,351,110	3,508,960	-	-	-	-	4,351,110	3,508,960
Accrued Interest Receivable	353	164	-	-	-	-	353	164
Total Restricted Assets	8,104,791	8,249,328	336,972	336,651	52,012,045	58,956,009	60,453,808	67,541,988
Capital Assets: (Notes 1 and 5)								
Land	1,704,406	1,620,385	1,733,997	1,726,197	-	-	3,438,403	3,346,582
Construction in progress	5,015,672	1,504,873	6,644,610	6,122,862	-	-	11,660,282	7,627,735
Wells & Reservoirs	8,966,440	8,810,950	-	-	-	-	8,966,440	8,810,950
Transmission & Distribution Mains Services & Hydrants	68,692,948	66,135,395	-	-	-	-	68,692,948	66,135,395
Interceptor & Collector Systems	14,592,810	13,817,079	-	-	-	-	14,592,810	13,817,079
Building Structure & Appurtenances	-	-	37,723,778	37,199,069	-	-	37,723,778	37,199,069
Metering System	22,377,675	22,321,604	56,533,513	55,497,783	-	-	78,911,188	77,819,387
Equipment and Furnishings	8,484,524	8,337,266	421,474	249,298	-	-	8,905,998	8,586,564
Capacity	6,282,968	6,046,284	21,884,835	20,785,763	2,745,803	2,618,615	30,913,606	29,450,662
Less accumulated depreciation	1,207,901	1,207,901	1,116,214	1,116,214	-	-	2,324,115	2,324,115
Total Capital Assets	(35,337,812)	(32,925,314)	(38,893,885)	(34,614,962)	(1,309,646)	(880,316)	(75,541,343)	(68,420,592)
Other Assets:	101,987,532	96,876,423	87,164,536	88,082,224	1,436,157	1,738,299	190,588,225	186,696,946
Long-Term Portion of Receivables - Financing Contracts (Note 4)	-	-	2,483,058	2,662,729	-	-	2,483,058	2,662,729
Intangible Service Concession Arrangement (Note 6)	-	-	-	-	247,290,575	243,618,254	247,290,575	243,618,254
OPEB Asset (Note 12)	1,133,284	1,148,526	-	-	-	-	1,133,284	1,148,526
Other Assets	-	-	-	-	1,631,023	1,215,750	1,631,023	1,215,750
Facilities Planning Costs (Net of Accumulated Amortization) (Note 7)	162,398	265,992	370,447	589,293	-	-	532,845	855,285
Total Other Assets	1,295,682	1,414,518	2,853,505	3,252,022	248,921,598	244,834,004	253,070,785	249,500,544
Total Noncurrent Assets	111,388,005	106,540,269	90,355,013	91,670,897	302,369,800	305,528,312	504,112,818	503,739,478
Total Assets	127,002,774	122,174,982	111,695,813	113,011,522	317,564,520	322,190,143	556,263,107	557,376,647
Deferred Outflows of Resources								
Pensions	468,237	249,286	235,706	125,488	1,738,603	925,625	2,442,546	1,300,399
Refunding Loss on Bonds	306,766	400,703	-	-	-	-	306,766	400,703
Total Deferred Outflows	775,003	649,989	235,706	125,488	1,738,603	925,625	2,749,312	1,701,102
Total Assets and Deferred Outflows of Resources	\$ 127,777,777	\$ 122,824,971	\$ 111,931,519	\$ 113,137,010	\$ 319,303,123	\$ 323,115,768	\$ 559,012,419	\$ 559,077,749

This statement is continued on the next page

The accompanying notes are an integral part of the financial statements.

LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA

STATEMENTS OF NET POSITION (CONTINUED)
December 31, 2016 AND 2015

- LIABILITIES AND NET POSITION -

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Current Liabilities:								
Accounts Payable - Trade	\$ 971,224	\$ 394,935	\$ 1,299,252	\$ 819,364	\$ 1,147,617	\$ 2,298,741	\$ 3,418,093	\$ 3,513,040
Accounts Payable - Capital	248,184	101,584	58,236	43,170	80,958	256,472	387,378	401,226
Accrued Interest Payable	159,936	164,243	3,346	3,346	1,087,309	1,087,310	1,250,591	1,254,899
Notes Payable (Note 8)	237,113	233,799	408,824	404,361	-	-	645,937	638,160
Revenue Bonds Payable (Note 8)	1,422,735	1,398,406	61,108	208,656	-	-	1,483,843	1,607,062
Developer Deposits and Other (Note 10)	544,928	72,633	6,019	6,215	21,667	29,222	572,614	108,070
Accrued Payroll & Other	185,331	123,754	162,902	652,170	416,279	401,349	764,512	1,177,273
Total Current Liabilities	<u>3,769,451</u>	<u>2,489,354</u>	<u>1,999,687</u>	<u>2,137,282</u>	<u>2,753,830</u>	<u>4,073,094</u>	<u>8,522,968</u>	<u>8,699,730</u>
Noncurrent Liabilities:								
Developer Deposits and Other (Note 10)	5,156,062	4,732,180	-	-	-	-	5,156,062	4,732,180
SCA Payable (Note 6)	-	-	-	-	42,629,993	41,076,184	42,629,993	41,076,184
Notes Payable (Note 8)	2,969,626	3,206,756	6,865,502	6,879,354	-	-	9,835,128	10,086,110
OPEB Liability	-	-	-	-	662,695	466,083	662,695	466,083
Net Pension Liability	567,970	275,198	285,911	138,532	2,108,923	1,021,838	2,962,804	1,435,568
Revenue Bonds Payable (Net of Premium/Discount) (Note 8)	25,043,420	26,473,929	1,635,713	1,702,280	306,974,727	303,795,957	333,653,860	331,972,166
Total Noncurrent Liabilities	<u>33,737,078</u>	<u>34,688,063</u>	<u>8,787,126</u>	<u>8,720,166</u>	<u>352,376,338</u>	<u>346,360,062</u>	<u>394,900,542</u>	<u>389,768,291</u>
Total Liabilities	<u>37,506,529</u>	<u>37,177,417</u>	<u>10,786,813</u>	<u>10,857,448</u>	<u>355,130,168</u>	<u>350,433,156</u>	<u>403,423,510</u>	<u>398,468,021</u>
Net Position: (Notes 1 and 13)								
Net Investment in Capital Assets	73,227,080	67,846,635	78,193,389	78,887,573	1,014,508	1,007,853	152,434,977	147,742,061
Restricted for Debt Service	1,209,379	1,209,239	-	-	-	-	1,209,379	1,209,239
Unrestricted	15,834,789	16,591,680	22,951,317	23,391,989	(36,841,553)	(28,325,241)	1,944,553	11,658,428
Total Net Position	<u>90,271,248</u>	<u>85,647,554</u>	<u>101,144,706</u>	<u>102,279,562</u>	<u>(35,827,045)</u>	<u>(27,317,388)</u>	<u>155,588,909</u>	<u>160,609,728</u>
Total Liabilities and Net Position	<u>\$ 127,777,777</u>	<u>\$ 122,824,971</u>	<u>\$ 111,931,519</u>	<u>\$ 113,137,010</u>	<u>\$ 319,303,123</u>	<u>\$ 323,115,768</u>	<u>\$ 559,012,419</u>	<u>\$ 559,077,749</u>

The accompanying notes are an integral part of the financial statements.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2016 and 2015**

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
OPERATING REVENUES:								
Charges for Services	\$ 8,676,844	\$ 8,481,360	\$ 18,295,538	\$ 11,616,373	\$ 31,599,212	\$ 26,878,499	\$ 58,571,594	\$ 46,976,232
Rent	97,011	111,745	-	-	-	-	97,011	111,745
Other Income	41,152	51,327	202,421	252,802	74,245	85,530	317,818	389,659
Total Operating Revenues	<u>8,815,007</u>	<u>8,644,432</u>	<u>18,497,959</u>	<u>11,869,175</u>	<u>31,673,457</u>	<u>26,964,029</u>	<u>58,986,423</u>	<u>47,477,636</u>
OPERATING EXPENSES								
Salaries and Wages	1,028,004	801,639	440,614	430,271	3,665,069	3,845,386	5,133,687	5,077,296
General and Administrative	1,045,634	770,436	564,580	474,988	6,361,467	5,645,355	7,971,681	6,890,779
Utilities	426,230	435,422	204,648	218,286	1,863,839	1,939,560	2,494,717	2,593,268
Materials and Supplies	288,550	292,395	189,418	187,328	1,333,225	1,400,206	1,811,193	1,879,929
Miscellaneous Services	2,024,840	1,760,084	7,139,673	6,996,038	2,596,865	2,358,537	11,761,378	11,114,659
Treatment and Transportation	-	-	8,646,146	2,347,975	11,011	11,043	8,657,157	2,359,018
Depreciation and Amortization	2,587,430	2,508,051	4,501,469	4,359,509	5,834,285	5,530,078	12,923,184	12,397,638
Total Operating Expenses	<u>7,400,688</u>	<u>6,568,027</u>	<u>21,686,548</u>	<u>15,014,395</u>	<u>21,665,761</u>	<u>20,730,165</u>	<u>50,752,997</u>	<u>42,312,587</u>
OPERATING INCOME (LOSS)	<u>1,414,319</u>	<u>2,076,405</u>	<u>(3,188,589)</u>	<u>(3,145,220)</u>	<u>10,007,696</u>	<u>6,233,864</u>	<u>8,233,426</u>	<u>5,165,049</u>
NONOPERATING REVENUES (EXPENSES):								
Tapping and Capital Recovery Fees	426,177	276,202	1,165,372	2,385,116	1,170,915	236,343	2,762,464	2,897,661
Meter Sales	156,365	88,082	12,000	-	13,319	13,272	181,684	101,354
Inspection, Plan Reviews, and Project Reimbursements	160,751	207,992	31,181	689	1,396,588	1,295,847	1,588,520	1,504,528
Interest Earnings	91,619	54,422	118,512	109,829	386,754	424,171	596,885	588,422
Interest Expense	(1,140,565)	(1,269,864)	(195,081)	(151,110)	(18,280,300)	(18,024,646)	(19,615,946)	(19,445,620)
Other Expense	(157,016)	(68,291)	(65,320)	(80,574)	(4,026,159)	(2,047,608)	(4,248,495)	(2,196,473)
Other Income	112,426	53,513	990	930	821,530	543,291	934,946	597,734
Total Nonoperating (Expenses)	<u>(350,243)</u>	<u>(657,944)</u>	<u>1,067,654</u>	<u>2,264,880</u>	<u>(18,517,353)</u>	<u>(17,559,330)</u>	<u>(17,799,942)</u>	<u>(15,952,394)</u>
Increase (Decrease) in net position before capital contributions	<u>1,064,076</u>	<u>1,418,461</u>	<u>(2,120,935)</u>	<u>(880,340)</u>	<u>(8,509,657)</u>	<u>(11,325,466)</u>	<u>(9,566,516)</u>	<u>(10,787,345)</u>
Capital Contributions:								
Capital Grant	211,552	421,853	-	-	-	-	211,552	421,853
Capital Assets Provided by Developers and Others	3,348,066	1,270,958	986,079	-	-	-	4,334,145	1,270,958
Total Capital Contributions	<u>3,559,618</u>	<u>1,692,811</u>	<u>986,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,545,697</u>	<u>1,692,811</u>
Increase (Decrease) in Net Position	4,623,694	3,111,272	(1,134,856)	(880,340)	(8,509,657)	(11,325,466)	(5,020,819)	(9,094,534)
Net Position at Beginning of Year, before restatement	85,647,554	82,683,845	102,279,562	103,234,184	(27,317,388)	(15,444,006)	160,609,728	170,474,023
Cumulative Effect of Change in Accounting principle	-	(147,563)	-	(74,282)	-	(547,916)	-	(769,761)
Net Position at Beginning of Year, as restated	<u>85,647,554</u>	<u>82,536,282</u>	<u>102,279,562</u>	<u>103,159,902</u>	<u>(27,317,388)</u>	<u>(15,991,922)</u>	<u>160,609,728</u>	<u>169,704,262</u>
Net Position at End of Year	<u>\$ 90,271,248</u>	<u>\$ 85,647,554</u>	<u>\$ 101,144,706</u>	<u>\$ 102,279,562</u>	<u>\$ (35,827,045)</u>	<u>\$ (27,317,388)</u>	<u>\$ 155,588,909</u>	<u>\$ 160,609,728</u>

The accompanying notes are an integral part of the financial statements.

LEHIGH COUNTY AUTHORITY
ALLEN TOWN, PENNSYLVANIA

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 AND 2015

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES								
Cash Received From Customers	\$ 8,608,912	\$ 8,455,376	\$ 17,831,164	\$ 12,898,016	\$ 31,340,407	\$ 26,965,674	\$ 57,780,483	\$ 48,319,066
Cash Payments To Suppliers For Goods And Services	(2,097,850)	(2,337,860)	(15,666,721)	(10,495,622)	(7,026,994)	(4,273,284)	(24,791,565)	(17,106,766)
Cash Payments To Employees For Services	(1,922,998)	(1,722,110)	(1,457,301)	(977,557)	(9,540,887)	(9,654,805)	(12,921,186)	(12,354,472)
Other Operating Cash Receipts	127,192	145,341	202,421	252,802	74,245	85,530	403,858	483,673
Net Cash Provided By Operating Activities	4,715,256	4,540,747	909,563	1,677,639	14,846,771	13,123,115	20,471,590	19,341,501
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Interest Paid on Revenue Bonds and Notes	-	-	-	-	(13,047,722)	(13,047,721)	(13,047,722)	(13,047,721)
Facility Improvement Payments	-	-	-	-	(9,464,852)	(7,428,370)	(9,464,852)	(7,428,370)
Payments to the City of Allentown	-	-	-	-	(500,000)	-	(500,000)	-
Transfers From Other Funds	-	54,733	76,700	-	-	-	76,700	54,733
Transfers To Other Funds	(34,206)	-	-	(38,547)	(42,494)	(16,186)	(76,700)	(54,733)
Net Cash Provided By (Used in) Noncapital Financing Activities	(34,206)	54,733	76,700	(38,547)	(23,055,068)	(20,492,277)	(23,012,574)	(20,476,091)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Receipts/(Release) of Developer Deposits	60,967	1,341,083	-	-	(7,555)	5,612	53,412	1,346,695
Payments of Developer Deposits	(6,940)	(307,738)	(196)	(5,242)	-	-	(7,136)	(312,980)
Payments of Facilities Planning Costs	(71,338)	(142,216)	(3,700)	(457,659)	-	-	(75,038)	(599,875)
Acquisition and Construction of Property and Equipment	(4,175,541)	(1,308,857)	(2,375,156)	(1,032,713)	(182,582)	(710,778)	(6,733,279)	(3,052,348)
Proceeds From Capacity Sales	-	-	-	31,590	-	-	-	31,590
Cash Received from Tapping and Capital Recovery Fees	426,177	276,202	1,165,372	2,385,116	1,170,915	236,343	2,762,464	2,897,661
Cash Received from Meter Sales	156,365	88,082	12,000	-	13,319	13,272	181,684	101,354
Cash Received from Inspection, Plan Reviews, and Project Reimbursements	160,751	207,992	31,181	689	1,396,588	1,295,847	1,588,520	1,504,528
Other Capital Cash Receipts	323,978	475,366	990	930	876,924	568,205	1,201,892	1,044,501
Other Capital Cash Payments	(10,416)	(69,044)	(50,254)	(65,386)	(4,229,370)	(1,941,100)	(4,290,040)	(2,075,530)
Revenue Bond and Note Issuance Proceeds	-	15,718,000	394,994	568,411	-	-	394,994	16,286,411
Principal Paid On Revenue Bonds	(1,406,180)	(15,947,863)	(214,115)	(273,514)	-	-	(1,620,295)	(16,221,377)
Principal Paid On Revenue Notes	(233,816)	(948,329)	(404,383)	(382,802)	-	-	(638,199)	(1,331,131)
Interest Paid On Revenue Bonds and Notes	(1,050,935)	(1,223,173)	(195,081)	(151,110)	-	-	(1,246,016)	(1,374,283)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(5,826,928)	(1,840,495)	(1,638,348)	618,310	(961,761)	(532,599)	(8,427,037)	(1,754,784)
CASH FLOWS FROM INVESTING ACTIVITIES								
Maturities of Certificates Of Deposit	4,851,706	2,584,000	5,476,064	8,469,000	-	-	10,327,770	11,053,000
Purchase of Certificates Of Deposit	(4,520,000)	(5,310,821)	(6,100,000)	(10,211,172)	-	-	(10,620,000)	(15,521,993)
Maturities of U.S. Treasury Obligations	-	-	-	-	10,000,000	18,237,460	10,000,000	18,237,460
Interest Received On Investments	88,756	47,875	114,456	108,383	384,948	424,088	588,160	580,346
Net Cash Provided by (Used in) Investing Activities	420,462	(2,678,946)	(509,480)	(1,633,789)	10,384,948	18,661,548	10,295,930	14,348,813
Net Increase (Decrease) in Cash	(725,416)	76,039	(1,161,565)	623,613	1,214,890	10,759,787	(672,091)	11,459,439
Cash:								
Beginning	7,721,792	7,645,753	12,435,358	11,811,745	39,085,965	28,326,178	59,243,115	47,783,676
Ending	\$ 6,996,376	\$ 7,721,792	\$ 11,273,793	\$ 12,435,358	\$ 40,300,855	\$ 39,085,965	\$ 58,571,024	\$ 59,243,115
Cash Consisted of the Following:								
Cash and Cash Equivalents	\$ 4,168,546	\$ 5,007,038	\$ 10,936,821	\$ 12,098,707	\$ 6,428,690	\$ 8,269,836	\$ 21,534,057	\$ 25,375,581
Restricted Cash and Cash Equivalents	2,827,830	2,714,754	336,972	336,651	33,872,165	30,816,129	37,036,967	33,867,534
Total Cash and Cash Equivalents	\$ 6,996,376	\$ 7,721,792	\$ 11,273,793	\$ 12,435,358	\$ 40,300,855	\$ 39,085,965	\$ 58,571,024	\$ 59,243,115

This statement is continued on the next page

The accompanying notes are an integral part of the financial statements.

LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2016 AND 2015

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Reconciliation Of Operating Income (Loss) To Net Cash Provided By Operating Activities								
Operating Income (Loss)	\$ 1,414,319	\$ 2,076,405	\$ (3,188,589)	\$ (3,145,220)	\$ 10,007,696	\$ 6,233,864	\$ 8,233,426	\$ 5,165,049
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by/(Used In) Operating Activities:								
Depreciation and Amortization	2,587,430	2,508,051	4,501,469	4,359,509	5,834,285	5,530,078	12,923,184	12,397,638
Change in Assets and Liabilities:								
(Increase)/Decrease in Accounts Receivable Customers	(67,932)	(25,984)	(877,912)	852,306	110,240	179,130	(835,604)	1,005,452
(Increase)/Decrease in Financing Contract Receivable	-	-	440,166	(663,169)	-	-	440,166	(663,169)
(Increase)/Decrease in Other Operating Receivable	(10,971)	(17,731)	(26,628)	504,088	(369,045)	(91,955)	(406,644)	394,402
(Increase)/Decrease in Inventory	18,556	5,692	-	-	-	-	18,556	5,692
(Increase)/Decrease in Prepaid Expense	46,925	(10,326)	33,276	(38,597)	(70,930)	(33,130)	9,271	(82,053)
Increase in OPEB Liability	-	-	-	-	196,612	199,689	196,612	199,689
Decrease in OPEB Asset	15,242	14,379	-	-	-	-	15,242	14,379
Increase/(Decrease) in Accounts Payable - Trade	576,289	154,675	479,888	(707,398)	(1,151,124)	1,469,192	(94,947)	916,469
Increase in Net Pension Liability	292,772	57,490	147,379	28,940	1,087,085	213,468	1,527,236	299,898
(Increase) in Pension Deferred Outflows	(218,951)	(179,141)	(110,218)	(90,178)	(812,978)	(665,172)	(1,142,147)	(934,491)
Increase/(Decrease) in Accrued Wages and Other	61,577	(42,763)	(489,268)	577,358	14,930	87,951	(412,761)	622,546
Net Cash Provided By Operating Activities	\$ 4,715,256	\$ 4,540,747	\$ 909,563	\$ 1,677,639	\$ 14,846,771	\$ 13,123,115	\$ 20,471,590	\$ 19,341,501
Noncash Noncapital, and Capital Financing Activities								
Noncash Capital Activities, Contribution of Capital Assets From Developers and Others	\$ 3,348,066	\$ 1,270,958	\$ 986,079	\$ -	\$ -	\$ -	\$ 4,334,145	\$ 1,270,958
Noncash Noncapital Activities, Accretion on Bonds Payable	-	-	-	-	2,862,150	3,020,916	2,862,150	3,020,916
Noncash Noncapital Activities, Change in Present Value of SCA Payable	-	-	-	-	2,053,809	1,956,009	2,053,809	1,956,009

The accompanying notes are an integral part of the financial statements.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**STATEMENTS OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2016 and 2015**

	Suburban Post Employment Health Fund	
	2016	2015
Assets		
Investments:		
Mutual Funds (Note 2)	\$ 2,703,553	\$ 2,545,435
Total Assets	\$ 2,703,553	\$ 2,545,435
Net Position Held in Trust for Employees' Post Retirement Health Benefits	\$ 2,703,553	\$ 2,545,435

The accompanying notes are an integral part of the financial statements.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

	Suburban Post Employment Health Fund	
	2016	2015
Additions:		
Contributions:		
Employer	\$ -	\$ -
Total Contributions	-	-
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	200,794	(66,722)
Net Investment Income/(Loss)	200,794	(66,722)
Total Additions/(Reductions)	200,794	(66,722)
Deductions:		
Reimbursement of Benefits Expense	42,676	28,555
Total Deductions	42,676	28,555
Net Increase/(Decrease)	158,118	(95,277)
Net Position Held in Trust for Employees' Post Retirement Health Benefits:		
Beginning of Year	2,545,435	2,640,712
End of Year	\$ 2,703,553	\$ 2,545,435

The accompanying notes are an integral part of the financial statements.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lehigh County Authority (the Authority) was incorporated under the Pennsylvania Municipal Authorities Act, by the Lehigh County Commissioners in 1966, "... for the purpose of accumulating, conserving and distributing fresh water ..." Under the Act, an authority is an independent municipal corporation and a separate governmental agency of the state. In 1969, the County Commissioners advanced the Authority from a paper organization to an operating unit to plan and construct a water supply system and a wastewater interceptor system to serve residential, commercial and industrial users in the western part of Lehigh County. In 2013, the Authority started serving other areas of Lehigh County when it acquired the rights to lease and operate the City of Allentown's Water and Sewer Systems under a 50 year Concession and Lease Agreement (the Concession). As a result of this Agreement, the Authority created both City and Suburban Divisions, in recognition of the various agreements and financings, related to each entity.

The Authority currently provides two types of services to communities in the City Division. Through the Water Plant and Distribution System (the City Water System) the Authority serves 46,762 residential and business units in the City of Allentown and supplies water under Municipal Services Agreements to Lehigh County Municipalities of South Whitehall, Hanover, Salisbury, Whitehall, Bethlehem and to the Suburban Division under a previously executed water supply agreement. Through the Sewer Utility System (the City Sewer System) the Authority provides sewage collection, treatment and disposal services to 46,730 residential and business units in the City of Allentown and to the Lehigh County Municipalities of Coplay-Whitehall, Emmaus, Hanover, Salisbury, Lower Macungie, South Whitehall and to the Suburban Division, under a previously executed sewer services agreement.

The Authority currently provides four types of service to communities in the Suburban Division. Through the Western Lehigh Interceptor System, the Authority provides sewage transportation service to the Townships of Lower Macungie, Lowhill, Upper Macungie, Upper Milford, and Weisenberg and the Boroughs of Alburtis, Emmaus and Macungie. The Authority owns and operates wastewater collection systems in the Townships of Upper Milford, Heidelberg, Lynn, North Whitehall and Weisenberg serving a total of 2,739 customers as of December 31, 2016. Through the Little Lehigh Relief Interceptor System, the Authority provides sewage transportation service to Salisbury and South Whitehall Townships along with the other users of the Western Lehigh Interceptor System excluding Emmaus. As of December 31, 2016 the Water System serves 21,488 residential and business units in the Lehigh County Municipalities of Upper and Lower Macungie, North Whitehall, Washington, Weisenberg, South Whitehall, Heidelberg, Lower Milford, Lowhill, Lynn, Salisbury and Upper Milford Townships and in Moore Township of Northampton County.

The accompanying financial statements include all funds which are "controlled by or are dependent on" the Authority. The funds included are the Suburban Water Fund, both operating and capital, the Suburban Wastewater Fund, both operating and capital for the Western Lehigh Interceptor System, Little Lehigh Relief Interceptor System, Wastewater Collector Systems in Upper Milford, Weisenberg, Washington, Lynn, Heidelberg and North Whitehall Townships, a Wastewater Treatment Plant and planning activity for providing wastewater service, and the City Division Fund, both operating and capital.

Accordingly, the accompanying financial statements do not include the financial activities of the County of Lehigh (the County), nor are the Authority's financial activities included in the County's financial statements, since each is considered a separate entity under the Governmental Accounting Standards Board (GASB) criteria.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For purposes of financial reporting, the Authority is considered to be a related organization to the County. The criteria used in determining the scope of the reporting entity are outlined below.

The Authority members are appointed to five-year terms by the County Executive, with concurrence by the County Commissioners, in an authoritative, official capacity. After confirmation, only the Court of Common Pleas can remove a member for cause. While there is continuing communication with the County, there is little linkage to the elected County officials thereafter.

The management and employees of the Authority responsible for the operations of the Authority are appointed by and held accountable to the Authority. The County does not possess powers of appointment over any Authority employee.

The Authority reviews and approves all budgets, sets rates, and exercises control over facilities, property and policies relating to the services provided by the Authority. The County is under no obligation to finance operating deficits and does not have claim to any surpluses. The Authority has the power to issue bonds and other financing, with the County having no legal responsibility for debt issued by the Authority.

The accounting policies of the Lehigh County Authority conform to generally accepted accounting principles as established by the Governmental Accounting Standards Board. The following is a summary of the significant policies:

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position and disclosures at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Operating revenues and expenses are distinguished from non-operating items in the statement of revenues, expenses and changes in net position. Operating revenues and expenses result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues of the Authority are charges to customers for water use and wastewater collection, transmission and treatment. When calculating user fees charged to customers, the Authority includes a component for the repayment of principal on the Authority's outstanding debt. Operating expenses include the cost of providing water and wastewater services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal non-operating revenues of the Authority are capital recovery fees, plan review and inspection fees and investment income. The principal non-operating expenses of the Authority include interest expense and cost of goods sold.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital grant funding represents amounts received from capital project grants, which are restricted to capital acquisition or construction. The Authority recognizes capital grant funding when the grants are earned which is generally when the related capital expenditure is made.

The funds of the Authority are grouped in the financial statements in this report as follows:

1. Proprietary Funds:

Enterprise Funds - are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds, which are reported as major funds:

Suburban Water Fund - Used to account for the operations of the suburban water supply and distribution system. The suburban water system is a public utility service, which is intended to be maintained on a self-supporting basis.

Suburban Wastewater Fund - Used to account for the operations of the suburban wastewater interceptor, collector systems, and treatment facilities. The suburban wastewater system is a public utility service, which intends to be maintained on a self-supporting basis.

City Division Fund – Used to account for the operations of the City Concessed System. The City Division Fund is a public utility service, which intends to be maintained on a self supporting basis. This fund was added in 2013 as a result of the Service Concession Arrangement discussed in Note 6.

2. Fiduciary Fund:

The Suburban Post-Employment Health Trust Fund was created in 2010 to accumulate assets to be used for payment of health benefits to qualified retirees.

C. Budgets and Budgetary Accounting

The Lehigh County Authority follows these procedures in establishing the annual budgets:

1. In November department heads develop a preliminary budget, including personnel needs, for all capital and operating programs and for all line items for the coming calendar year. Supporting detail provides justification for each budget component, including calculations, quotations, project timetables, outlines, etc.
2. The budget is given to the Authority Board in late November for review. A formal presentation is made the second week of December with final adoption at the Authority's final December meeting. The final copy of the budget includes an individual budget for City and Suburban Divisions, including Water and Wastewater Operating, and Water and Wastewater Capital sections. The officially adopted budget is the financial plan for the ensuing year.
3. Each month, a Budget Comparative Report is prepared. The report cites monthly and year-to-date activity as well as unused budgeted monies. All department heads are responsible for evaluating their areas for compliance with the budget and taking appropriate remedial action.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. The General Manager is authorized to transfer budgeted amounts between line items within any budget; however, any revisions that alter the total expenses or revenues of any fund must be approved by the Authority Board. For the year ended December 31, 2016, there were no budget amendments.
5. The level of control (level at which expenses may not exceed budget) is the individual budgets within each fund. Budgets lapse at year-end.
6. Budgets for the Enterprise Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budgets of the Authority are maintained and are prepared using the accrual basis of accounting. Budgeted amounts are as originally adopted, as amended by the General Manager, or as amended by the Authority Board.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments, including investments in external investment pools and money market mutual funds as discussed in Note 2, with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash and Certificates of Deposit include escrow accounts established in the Authority's name for maintenance security by developers, funds held by the trustee in debt service accounts, and other special purpose trustee accounts which include unspent 2013 bond proceeds.

E. Trade Receivables

All trade receivables are shown net of an allowance for uncollectables, as applicable, trade receivables are evaluated for collectability and an allowance is established, as deemed necessary based on the best information available and in an amount that management believes is adequate. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

F. Inventory

Inventory of the Suburban Water Fund consists of meters and related components and is stated at cost (first-in, first-out). It is the policy of the Authority to expense all other materials and supplies on a current basis for all of the funds.

G. Investments, External Investment Pools, Certificates of Deposit

The Authority invests its idle funds in various instruments, including external investment pools which invest in government secured instruments and certificates of deposit with federally-insured financial institutions. The investments, as listed on the balance sheet, include an equity security held in escrow as security for Developer system extensions. This investment is valued at fair value. The Authority's investment in external investment pools, as discussed in Note 2, and government secured money market instruments are valued at fair value, or amortized cost, which approximates cost and is classified as cash and cash equivalents in the balance sheet. The Authority invests in both negotiable and non-negotiable certificates of deposit (CD) in federally insured financial institutions. Negotiable CD's are valued at fair value while non-negotiable CD's are valued at cost because they are considered non-participating contracts for which redemption terms do not consider market rates.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets & Depreciation, and Service Concession Arrangement & Amortization

The Authority uses a capitalization threshold of \$5,000 to record capital assets purchased and constructed. The expenses are recorded at cost including any liability for contract retainage and construction costs payable. In addition, the Authority included any water rights associated with a project as part of the cost of that project and depreciated them accordingly. Intangible assets acquired in the Service Concession Arrangement are amortized over 50 years. Intangible assets with an indefinite life are not subject to amortization. The construction accounts have also been charged with applicable administrative expenses.

Contributed assets are carried at estimated market value at the time of contribution. Depreciation is determined using the straight-line method based upon the following estimated useful lives:

	<u>Years</u>
Wells	45
Transmission and Distribution Mains	100
Services	60
Fire Hydrants	65
Reservoirs	55
Pumping Station – Structures	45
Pumping Station - Electrical and Pumping Appurtenances	35
Pumping Station – Purification	33.5
Metering System	20
Transportation and Computer Equipment	5
Communication and Miscellaneous Equipment	5 - 20
Wastewater Collector System	100
Western Lehigh Interceptor System	50
Relief Interceptor Systems	100
Office Equipment and Furnishings	10
Office Building and Site Improvements	20 - 40
Water Capacity	40

Normal maintenance and repairs are charged to operations as incurred. Renewals and betterments are capitalized and depreciated based upon the expected life of such improvements.

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Non-exchange transactions, such as donated system assets and assets acquired by contributions, are recognized as capital contributions in accordance with GASB Statement No. 33.

I. Facilities Planning Costs

The Authority has adopted a policy of amortizing planning costs related to all Water and Wastewater activity. With the exception of the development of a Water System hydraulic model, a Financial Information System Selection, an Integrated Computer System study, a Methane Gas Energy Study and the costs of negotiating a lease agreement with the County of Lehigh for oversight of a wastewater treatment plant, all of which are being amortized over 7 years, and a future water supply drilling program and a wastewater hydraulic model, which are being amortized over 10 years, all other planning costs are amortized over a 3-year period.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The period over which the costs are amortized and the amortization expense for 2016 and 2015 are as follows:

	<u>Amortization Period (Years)</u>	<u>2016 Amortization</u>	<u>2015 Amortization</u>
Suburban Water Fund:			
Facilities Planning Costs	3-10	\$ 174,932	\$ 190,947
Suburban Wastewater Fund:			
Facilities Planning Costs	3-7	<u>222,546</u>	<u>232,454</u>
Total Amortization		<u>\$ 397,478</u>	<u>\$ 423,401</u>

J. Compensated Absences

The Authority has an incentive excused absence policy, which annually compensates employees who are absent from work less than a specific number of days during the year. Excused absences include employee and dependent illness, medical or dental appointments, or any other valid reason approved by the employee's immediate supervisor. There is no carryover of the excused absence allowance.

With approval up to 25 days of unused vacation can accumulate for 18 months beyond the year in which it is earned.

The following table summarizes unused vacation liability:

	<u>2016</u>	<u>2015</u>
Balance at Beginning of Year	\$ 167,873	\$ 167,290
Additions	235,208	167,873
Retirements	<u>(167,873)</u>	<u>(167,290)</u>
Balance at End of Year	<u>\$ 235,208</u>	<u>\$ 167,873</u>

Unused vacation days are generally utilized within 12 months and are reported in current liabilities as a component of Accrued Payroll and Other.

K. Deferred Outflows of Resources

The statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has two items that qualify for reporting in this category: deferred outflows related to pensions, and deferred outflows related to refunding losses on bonds.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Adoption of Governmental Accounting Standards Board Statements

The Authority adopted the provisions of GASB Statement No. 72, “*Fair Value Measurement and Application*”, GASB Statement No. 73, “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*”, GASB Statement No. 76, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*”, GASB Statement No. 77, “*Tax Abatement Disclosures*”, GASB Statement No. 78, “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*”, and GASB Statement No. 79, “*Certain External Investment Pools and Pool Participants*”. The adoption of GASB Statement No. 72 resulted in a modification of Note 2 of the financial statements. The adoption of the remaining GASB Statements did not result in modification of previously reported amounts.

M. Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 74, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”. The Authority is required to adopt statement No. 74 for its calendar year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”. The Authority is required to adopt statement No. 75 for its calendar year 2018 financial statements.

In January 2016, the GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*”. The Authority is required to adopt statement No. 80 for its calendar year 2017 financial statements.

In March 2016, the GASB issued Statement No. 81, “*Irrevocable Split-Interest Agreements*”. The Authority is required to adopt statement No. 81 for its calendar year 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, “*Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*”. The Authority is required to adopt statement No. 82 for its calendar year 2018 financial statements.

In November 2016, the GASB issued Statement No. 83, “*Certain Asset Retirement Obligations*”. The Authority is required to adopt statement No. 83 for its calendar year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, “*Fiduciary Activities*”. The Authority is required to adopt statement No. 84 for its calendar year 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, “*Omnibus 2017*”. The Authority is required to adopt statement No. 85 for its calendar year 2018 financial statements.

The Authority has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS

The carrying amounts of the cash and investments at December 31 consist of the following:

	<u>2016</u>	<u>2015</u>
Demand deposit, money market, and savings accounts	\$ 48,956,734	\$ 46,036,601
Certificates of deposit, nonnegotiable	3,325,498	4,524,450
Overnight repurchase	7,327,838	10,661,781
Certificates of deposit, negotiable	14,181,385	12,690,203
U.S. Treasury Obligations	18,139,880	28,139,880
OPEB Mutual Funds	2,703,553	2,545,435
Pennsylvania School District Liquid Asset Fund	<u>2,286,452</u>	<u>2,544,733</u>
	<u>\$96,921,340</u>	<u>\$107,143,083</u>

Classification per statements of net position:

Unrestricted current assets		
Cash and cash equivalents	\$ 21,534,057	\$ 25,375,581
Certificates of deposit	16,581,385	15,189,203
Restricted non-current assets		
Cash and cash equivalents	37,036,967	33,867,534
Certificates of deposit	925,498	2,025,450
Investment U.S. treasury obligations	18,139,880	28,139,880
OPEB Mutual Funds	<u>2,703,553</u>	<u>2,545,435</u>
	<u>\$ 96,921,340</u>	<u>\$107,143,083</u>

Deposits:

The Authority has a policy that requires all deposits and investments, other than U.S. government obligations, to be covered by Federal insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not insured by the Federal Deposit Insurance Corporation are collateralized using the pooled asset method to 100% of value as required by Pennsylvania Law.

The securities pledged as collateral are held by the trust department of a financial institution or by its agent in the financial institution's name. When certificates of deposit are purchased, the Authority or its agent either holds the actual certificate of deposit or receives a safekeeping certificate as its proof of ownership.

The Authority has custodial credit risk on cash and investment deposits. This is the risk that, in the event of a financial institution failure, the Authority's deposits may not be returned. At December 31, 2016 and 2015, the carrying amounts of the Authority's bank deposits were \$16,385,656 and \$16,654,506 respectively, and the bank balance of \$16,410,091 and \$17,719,461, respectively. As of December 31, 2016 and 2015 \$12,584,594 and \$12,781,032 of deposits were exposed to custodial risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name. At December 31, 2016 and 2015 none of the Authority's investments were subject to custodial credit risk.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Investments:

Pennsylvania Law limits investment and deposit types the Authority may purchase as follows:

- (a) U.S. Treasury bills
- (b) Short-term obligations of the U.S. government or its agencies
- (c) Demand, savings and time deposits with institutions insured by the FDIC or the National Credit Union Share Funds or collateralized with securities as provided by law.
- (d) Obligations of the United States or any of its agencies, the Commonwealth of Pennsylvania or any of its agencies or any political subdivisions of the Commonwealth of Pennsylvania or any of its agencies providing the obligations are backed by the full faith and credit of the political subdivisions.

Pennsylvania School District Liquid Asset Fund

The Authority has funds invested with the Pennsylvania School District Liquid Asset Fund (PSDLAF), an investment pool managed by RBC Capital Markets. In 2001, PSDLAF amended its bylaws to allow Pennsylvania municipal entities besides school districts to participate in the fund. The purpose of the pool is to enhance investment potential through cash pooling while providing security and liquidity. Pool participants are allocated a pro-rata share of each investment purchased by the pool.

Purchased securities, placed in the name of PSDLAF, serve as collateral and are held in safekeeping at PNC Bank. A liquid fund and MAX fund require no advance notice for withdrawals; however, since the MAX fund does not provide check writing services, a higher rate of return is earned.

In addition, each member can purchase certificates of deposit and other investments through the pool. Security for collateralized certificate of deposit purchases are held at the Bank of New York or the Federal Reserve Bank of Boston. The PSDLAF fund is regulated by the Municipal Securities Rulemaking Board. Investment policy is guided by Pennsylvania statute. The Authority's fair value of its position in the pool is measured at amortized cost and is the same as the value of the pool shares.

International City Managers Association Trust Fund

The Authority entered into an agreement with the International City Managers Association (ICMA) to place its future obligation for Other Post-employment Benefits into an irrevocable trust fund.

The Authority invested the funds in a long-term growth mutual fund (98%) and a Low Duration Bond fund (2%). Since the funds are not part of a pool, they are held in the name of Lehigh County Authority.

Money Market Funds

The Authority invests in various money market mutual funds. The money market accounts are secured only by the investments within the fund, which are generally U.S. Government obligations.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Investment Maturities

As of December 31, 2016 and 2015, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Total</u>	<u>Investment Maturities (In Years)</u>		<u>Rating as of Year-End</u>
				<u>Less than One Year</u>	<u>One-to-Five Years</u>	
Certificates of Deposit, negotiable	\$14,197,000	\$14,181,385	40.98%	\$7,665,490	\$6,515,895	N/A
U.S. Treasury Obligations	18,263,544	18,139,880	52.42%	10,136,160	8,003,720	N/A
Pennsylvania School District Liquid Asset Fund	<u>2,286,452</u>	<u>2,286,452</u>	<u>6.60%</u>	<u>2,286,452</u>	<u>-</u>	AAA Standard & Poors
Total	<u>\$34,746,996</u>	<u>\$34,607,717</u>	<u>100.00%</u>	<u>\$20,088,102</u>	<u>\$14,519,615</u>	

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Total</u>	<u>Investment Maturities (In Years)</u>		<u>Rating as of Year-End</u>
				<u>Less than One Year</u>	<u>One-to-Five Years</u>	
Certificates of Deposit, negotiable	\$12,676,000	\$12,690,203	29.26%	\$7,705,770	\$4,984,433	N/A
U.S. Treasury Obligation	28,371,240	28,139,880	64.88%	10,019,500	18,120,380	N/A
Pennsylvania School District Liquid Asset Fund	<u>2,544,733</u>	<u>2,544,733</u>	<u>5.86%</u>	<u>2,544,733</u>	<u>-</u>	AAA Standard & Poors
Total	<u>\$43,591,973</u>	<u>\$43,374,816</u>	<u>100.00%</u>	<u>\$20,270,003</u>	<u>\$23,104,813</u>	

Interest Rate Risk:

As a means of managing its exposure to fair value losses arising from increasing interest rates, the Authority's investment policy limits the value of investments with maturities to no greater than five years.

Credit Risk:

The Authority limits the type of investments permitted as defined in the Municipality Authorities Act and the related trust indentures. Permitted investments are defined above. The Authority's investment policy is consistent with these limitations.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Fair Value:

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. 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.

The Authority's investments in negotiable certificates of deposit are valued using quoted market prices (Level 1 inputs).

The Authority's investments in U.S. Treasury Obligations are valued using a matrix pricing model (Level 2 inputs).

The Authority's investments in OPEB Mutual Funds are valued using quoted market prices (Level 1 inputs).

NOTE 3 – DEVELOPER ESCROW DEPOSIT

The Authority requires developers to provide improvement security for system extensions. To meet this requirement, the majority of developers provide such security in cash or a letter of credit. With one larger developer, however, the Authority has agreed to hold 350,896 shares of stock as collateral. Although the stock certificate is issued in the developer's name, the Authority holds the original stock certificate. Each quarter the market value of the shares held is compared to total maintenance security required for all of this developer's extensions to ensure that enough security is being held. An offsetting liability for all developer deposits is shown as a current and non-current liability on the Statement of Net Position.

NOTE 4 – RECEIVABLES – DEVELOPER CONTRACTS

As of December 31, 2016 the Authority has five agreements with customers, which allow for the financing of wastewater capital recovery fees over a multi-year period. The purpose of these arrangements is to make it more affordable for high-volume wastewater users to locate in the Authority service area. The total amounts of unpaid fees have been recorded as current (\$303,306) and long-term receivables (\$2,483,058). At year-end 2015, there were five agreements and the unpaid fees were recorded as current (\$563,801) and long-term receivables (\$2,662,729). The Authority is recording interest income on the receivables in the year of receipt, which is not materially different than the accrual method.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS

Capital assets of the Authority for 2016 and 2015 consist of the following:

	Balance at 12/31/15	Additions	Retirements	Balance at 12/31/16
Suburban Water Fund				
Non-depreciable Assets:				
Land	\$ 1,620,385	\$ 84,021	\$ -	\$ 1,704,406
Construction in progress	1,504,873	4,300,049	(789,250)	5,015,672
Total Capital Assets Not Being Depreciated	<u>3,125,258</u>	<u>4,384,070</u>	<u>(789,250)</u>	<u>6,720,078</u>
Depreciable Assets:				
Wells & Reservoirs	8,810,950	155,490	-	8,966,440
Transmission & Distribution Mains	66,135,395	2,557,553	-	68,692,948
Service & Hydrants	13,817,079	775,731	-	14,592,810
Building Structure & Appurtenances	22,321,604	56,071	-	22,377,675
Metering System	8,337,266	147,258	-	8,484,524
Equipment	6,046,284	236,684	-	6,282,968
Capacity	1,207,901	-	-	1,207,901
Total Capital Assets Being Depreciated	<u>126,676,479</u>	<u>3,928,787</u>	<u>-</u>	<u>130,605,266</u>
Less Accumulated Depreciation for:				
Wells & Reservoirs	(2,681,123)	(166,859)	-	(2,847,982)
Transmission & Distribution Mains	(10,748,637)	(669,288)	-	(11,417,925)
Service & Hydrants	(3,533,591)	(231,273)	-	(3,764,864)
Building Structure & Appurtenances	(6,895,810)	(587,175)	-	(7,482,985)
Metering System	(3,698,766)	(371,865)	-	(4,070,631)
Equipment	(4,743,678)	(354,205)	-	(5,097,883)
Capacity	(623,709)	(31,833)	-	(655,542)
Total Accumulated Depreciation	<u>(32,925,314)</u>	<u>(2,412,498)</u>	<u>-</u>	<u>(35,337,812)</u>
Total Net Capital Assets Being Depreciated	<u>93,751,165</u>	<u>1,516,289</u>	<u>-</u>	<u>95,267,454</u>
Total Capital Assets, Net	<u>\$ 96,876,423</u>	<u>\$ 5,900,359</u>	<u>\$ (789,250)</u>	<u>\$ 101,987,532</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (Continued)

	Balance at 12/31/15	Additions	Retirements	Balance at 12/31/16
Suburban Wastewater Fund				
Non-depreciable Assets:				
Land	\$ 1,726,197	\$ 7,800	\$ -	\$ 1,733,997
Capacity	1,116,214	111,114	(111,114)	1,116,214
Construction in progress	6,122,862	2,466,510	(1,944,762)	6,644,610
Total Capital Assets Not Being Depreciated	<u>8,965,273</u>	<u>2,585,424</u>	<u>(2,055,876)</u>	<u>9,494,821</u>
Depreciable Assets:				
Interceptor & Collector Systems	37,199,069	524,709	-	37,723,778
Building Structure & Appurtenances	55,497,783	1,035,730	-	56,533,513
Metering System	249,298	172,176	-	421,474
Equipment	20,785,763	1,099,072	-	21,884,835
Total Capital Assets Being Depreciated	<u>113,731,913</u>	<u>2,831,687</u>	<u>-</u>	<u>116,563,600</u>
Less Accumulated Depreciation for:				
Interceptor & Collector Systems	(9,380,573)	(434,808)	-	(9,815,381)
Building Structure & Appurtenances	(13,427,008)	(1,793,636)	-	(15,220,644)
Metering System	(220,468)	(8,377)	-	(228,845)
Equipment	(11,586,913)	(2,042,102)	-	(13,629,015)
Total Accumulated Depreciation	<u>(34,614,962)</u>	<u>(4,278,923)</u>	<u>-</u>	<u>(38,893,885)</u>
Total Net Capital Assets Being Depreciated	79,116,951	(1,447,236)	-	77,669,715
Total Capital Assets, Net	<u>\$ 88,082,224</u>	<u>\$ 1,138,188</u>	<u>\$ (2,055,876)</u>	<u>\$ 87,164,536</u>
	Balance at 12/31/15	Additions	Retirements	Balance at 12/31/16
City Division Fund				
Non-depreciable Assets:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets Not Being Depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciable Assets:				
Transportation Equipment	2,346,518	182,582	(55,394)	2,473,706
Miscellaneous Equipment & Computers	248,981	-	-	248,981
Office Furniture & Equipment	23,116	-	-	23,116
Total Capital Assets Being Depreciated	<u>2,618,615</u>	<u>182,582</u>	<u>(55,394)</u>	<u>2,745,803</u>
Less Accumulated Depreciation for:				
Transportation Equipment	(819,579)	(403,387)	27,697	(1,195,269)
Miscellaneous Equipment & Computers	(49,179)	(49,017)	-	(98,196)
Office Furniture & Equipment	(11,558)	(4,623)	-	(16,181)
Total Accumulated Depreciation	<u>(880,316)</u>	<u>(457,027)</u>	<u>27,697</u>	<u>(1,309,646)</u>
Total Net Capital Assets Being Depreciated	1,738,299	(274,445)	(27,697)	1,436,157
Total Capital Assets, Net	<u>\$ 1,738,299</u>	<u>\$ (274,445)</u>	<u>\$ (27,697)</u>	<u>\$ 1,436,157</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (Continued)

	Balance at <u>12/31/15</u>	Additions	Retirements	Balance at <u>12/31/16</u>
Total Funds				
Total Capital Assets Not Being Depreciated	\$ 12,090,531	\$ 6,969,494	\$ (2,845,126)	\$ 16,214,899
Total Capital Assets Being Depreciated	243,027,007	6,943,056	(55,394)	249,914,669
Total Accumulated Depreciation	(68,420,592)	(7,148,448)	27,697	(75,541,343)
Total Net Capital Assets Being Depreciated	174,606,415	(205,392)	(27,697)	174,373,326
Total Capital Assets, Net	<u>\$ 186,696,946</u>	<u>\$ 6,764,102</u>	<u>\$ (2,872,823)</u>	<u>\$ 190,588,225</u>
	Balance at <u>12/31/14</u>	Additions	Retirements	Balance at <u>12/31/15</u>
Suburban Water Fund				
Non-depreciable Assets:				
Land	\$ 1,616,885	\$ 3,500	\$ -	\$ 1,620,385
Construction in progress	2,294,686	1,535,313	(2,325,126)	1,504,873
Total Capital Assets Not Being Depreciated	3,911,571	1,538,813	(2,325,126)	3,125,258
Depreciable Assets:				
Wells & Reservoirs	8,663,410	147,540	-	8,810,950
Transmission & Distribution Mains	65,170,685	964,710	-	66,135,395
Service & Hydrants	13,424,927	392,152	-	13,817,079
Building Structure & Appurtenances	21,215,668	1,105,936	-	22,321,604
Metering System	8,205,173	132,093	-	8,337,266
Equipment	5,474,325	623,697	(51,738)	6,046,284
Capacity	1,207,901	-	-	1,207,901
Total Capital Assets Being Depreciated	123,362,089	3,366,128	(51,738)	126,676,479
Less Accumulated Depreciation for:				
Wells & Reservoirs	(2,515,933)	(165,190)	-	(2,681,123)
Transmission & Distribution Mains	(10,093,692)	(654,945)	-	(10,748,637)
Service & Hydrants	(3,311,621)	(221,970)	-	(3,533,591)
Building Structure & Appurtenances	(6,310,613)	(585,197)	-	(6,895,810)
Metering System	(3,328,520)	(370,246)	-	(3,698,766)
Equipment	(4,507,695)	(287,721)	51,738	(4,743,678)
Capacity	(591,875)	(31,834)	-	(623,709)
Total Accumulated Depreciation	(30,659,949)	(2,317,103)	51,738	(32,925,314)
Total Net Capital Assets Being Depreciated	92,702,140	1,049,025	-	93,751,165
Total Capital Assets, Net	<u>\$ 96,613,711</u>	<u>\$ 2,587,838</u>	<u>\$ (2,325,126)</u>	<u>\$ 96,876,423</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (Continued)

	<u>Balance at 12/31/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 12/31/15</u>
Suburban Wastewater Fund				
Non-depreciable Assets:				
Land	\$ 1,726,197	\$ -	\$ -	\$ 1,726,197
Capacity	1,147,804	-	(31,590)	1,116,214
Construction in progress	8,678,576	2,607,591	(5,163,305)	6,122,862
Total Capital Assets Not Being Depreciated	<u>11,552,577</u>	<u>2,607,591</u>	<u>(5,194,895)</u>	<u>8,965,273</u>
Depreciable Assets:				
Interceptor & Collector Systems	36,323,865	875,204	-	37,199,069
Building Structure & Appurtenances	54,576,859	920,924	-	55,497,783
Metering System	249,298	-	-	249,298
Equipment	18,993,464	1,792,299	-	20,785,763
Total Capital Assets Being Depreciated	<u>110,143,486</u>	<u>3,588,427</u>	<u>-</u>	<u>113,731,913</u>
Less Accumulated Depreciation for:				
Interceptor & Collector Systems	(8,952,764)	(427,809)	-	(9,380,573)
Building Structure & Appurtenances	(11,657,649)	(1,769,359)	-	(13,427,008)
Metering System	(216,395)	(4,073)	-	(220,468)
Equipment	(9,661,099)	(1,925,814)	-	(11,586,913)
Total Accumulated Depreciation	<u>(30,487,907)</u>	<u>(4,127,055)</u>	<u>-</u>	<u>(34,614,962)</u>
Total Net Capital Assets Being Depreciated	<u>79,655,579</u>	<u>(538,628)</u>	<u>-</u>	<u>79,116,951</u>
Total Capital Assets, Net	<u>\$ 91,208,156</u>	<u>\$ 2,068,963</u>	<u>\$ (5,194,895)</u>	<u>\$ 88,082,224</u>
	<u>Balance at 12/31/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 12/31/15</u>
City Division Fund				
Non-depreciable Assets:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets Not Being Depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciable Assets:				
Transportation Equipment	1,821,009	550,423	(24,914)	2,346,518
Miscellaneous Equipment & Computers	88,626	160,355	-	248,981
Office Furniture & Equipment	23,116	-	-	23,116
Total Capital Assets Being Depreciated	<u>1,932,751</u>	<u>710,778</u>	<u>(24,914)</u>	<u>2,618,615</u>
Less Accumulated Depreciation for:				
Transportation Equipment	(463,776)	(363,278)	7,475	(819,579)
Miscellaneous Equipment & Computers	(15,807)	(33,372)	-	(49,179)
Office Furniture & Equipment	(6,935)	(4,623)	-	(11,558)
Total Accumulated Depreciation	<u>(486,518)</u>	<u>(401,273)</u>	<u>7,475</u>	<u>(880,316)</u>
Total Net Capital Assets Being Depreciated	<u>1,446,233</u>	<u>309,505</u>	<u>(17,439)</u>	<u>1,738,299</u>
Total Capital Assets, Net	<u>\$ 1,446,233</u>	<u>\$ 309,505</u>	<u>\$ (17,439)</u>	<u>\$ 1,738,299</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (Continued)

	Balance at 12/31/14	Additions	Retirements	Balance at 12/31/15
Total Funds				
Total Capital Assets Not Being Depreciated	\$ 15,464,148	\$ 4,146,404	\$ (7,520,021)	\$ 12,090,531
Total Capital Assets Being Depreciated	235,438,326	7,665,333	(76,652)	243,027,007
Total Accumulated Depreciation	(61,634,374)	(6,845,431)	59,213	(68,420,592)
Total Net Capital Assets Being Depreciated	173,803,952	819,902	(17,439)	174,606,415
Total Capital Assets, Net	<u>\$ 189,268,100</u>	<u>\$ 4,966,306</u>	<u>\$ (7,537,460)</u>	<u>\$ 186,696,946</u>

Under an agreement dated December 29, 1981, the Authority acquired 1,400,000 gallons per day of sewage treatment capacity ("grandfathered capacity") from the City of Allentown in addition to the amortized costs. This capacity was available to municipalities in Western Lehigh County for developments connected to the wastewater system. When a municipality required capacity to serve a business or residence, a fee was paid and recorded as a sale of capacity on the Authority's books. In addition, on an as-needed basis, the Authority purchases sewage treatment capacity from the City for non-grandfathered users ("General Pool Capacity"). This capacity is recorded on the books at the date of purchase and is reduced as such capacity is sold to the various municipalities and is included as a capital asset in the above table. At year-end 2016 and 2015 the total value of this capacity was \$1,116,214 and \$1,116,214 respectively.

NOTE 6 – SERVICE CONCESSION ARRANGEMENT

On August 7, 2013, the Lehigh County Authority ("LCA") entered into the Allentown Water and Sewer Utility System Concession and Lease Agreement (the "Service Concession Arrangement") with the City of Allentown, under which the LCA leased the Water and Sewer Utility Systems and retained the right and related obligation to operate those systems as the Concessionaire for 50 years. The LCA is required to operate and maintain the systems in accordance with the Service Concession Arrangement. The LCA entered into the Service Concession Arrangement to aid further regionalization of water and sewer services in the Lehigh Valley and to benefit the ratepayers with the overall organizational efficiencies. The LCA paid the City an upfront payment of \$211,332,218. The LCA also agreed to make required annual payments of \$500,000 starting in 2016, and every year thereafter, adjusted for inflation using the consumer price index. In addition to the required annual payments, the LCA must establish a Capex Fund (held in trust) no later than January 1, 2033. The LCA is required to make annual deposits into the Capex Fund in the amounts of \$1,000,000 for years 2033 to 2042, \$2,000,000 for years 2043 to 2052, and \$3,000,000 for years 2053 to 2062, adjusted for inflation using the consumer price index. These funds can be withdrawn by the LCA to pay costs incurred with respect to major capital improvements meeting certain requirements of the concession agreement. On the reversion date of the Water and Sewer Utility System, any moneys or securities held in the Capex Fund shall be applied first to pay any unpaid termination compensation, AA-Compensation and Concession Compensation and any amount remaining shall be remitted to the City. In conjunction with the execution of the service concession arrangement capital assets with an approximate fair value of \$1,485,804 were conveyed to LCA from the City.

This transaction meets the criteria for reporting under Governmental Accounting Standards Board (GASB) Statement No. 60 "Accounting and Financial Reporting for Service Concession Arrangements".

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 6 – SERVICE CONCESSION ARRANGEMENT (Continued)

As a result, an intangible asset (Service Concession Arrangement) of \$246,205,824, representing: I) the upfront payment, less the fair value of conveyed capital assets, II) the discounted future annual payments, and III) the discounted future Capex Fund funding requirements was recorded by LCA on the execution date. The intangible asset will be amortized on the straight line method over the life of the agreement (50 years). Cost of improvements to the facility during the term of the Service Concession Arrangement that increase capacity or efficiency of the facility are recorded as increases to the intangible asset and amortized systematically over the term of the arrangement. Costs of \$8,990,398 and \$8,128,076 were recorded as increases to the intangible asset in 2016 and 2015, respectively. Amortization expense in the amount of \$5,318,077 and \$5,128,805 was recognized in 2016 and 2015, respectively related to the intangible asset. The net book value of the asset was \$247,290,575 and \$243,618,254 at December 31, 2016 and 2015, respectively.

In addition to the intangible asset, LCA recorded an initial liability (“SCA Payable”) of \$36,359,411 representing: I) the present value of future annual payments, and II) the present value of future Capex Fund deposit requirements on the execution date. This liability is adjusted annually to reflect the present value of the future payments. Interest expense of \$2,053,089 and \$1,956,009 was recognized in 2016 and 2015, respectively. The liability was \$42,629,993 and \$41,076,184 at December 31, 2016 and 2015, respectively.

As part of the Service Concession Agreement the LCA was required to offer employment to substantially all existing employees of the Water and Sewer System. The LCA was required to provide existing levels of certain benefits to these employees, including OPEB and Pension. This resulted in the adoption of a new OPEB plan in 2013 (Note 12) and the addition of new employees into the LCA Pension. The impact of the addition of these new employees into the plan resulted in an unfunded actuarial accrued liability of \$220,059 at August 8, 2013.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 7 – FACILITIES PLANNING COSTS

Facilities Planning Costs for 2016 and 2015 consist of the following:

	<u>As of</u> <u>12/31/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>As of</u> <u>12/31/16</u>
Suburban Water Fund				
Facilities Planning Costs	\$ 944,771	\$ 71,338	\$ (119,378)	\$896,731
Less Accumulated Amortization	<u>(678,779)</u>	<u>(174,932)</u>	<u>119,378</u>	<u>(734,333)</u>
Total Suburban Water Facilities Costs - Net	<u>265,992</u>	<u>(103,594)</u>	<u>-</u>	<u>162,398</u>
Suburban Wastewater Fund				
Facilities Planning Costs	1,107,917	3,700	(33,416)	1,078,201
Less Accumulated Amortization	<u>(518,624)</u>	<u>(222,546)</u>	<u>33,416</u>	<u>(707,754)</u>
Total Suburban Wastewater Facilities Planning Costs - Net	<u>589,293</u>	<u>(218,846)</u>	<u>-</u>	<u>370,447</u>
Total Facilities Planning Costs - Net	<u>\$ 855,285</u>	<u>\$ (322,440)</u>	<u>\$ -</u>	<u>\$ 532,845</u>

	<u>As of</u> <u>12/31/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>As of</u> <u>12/31/15</u>
Suburban Water Fund				
Facilities Planning Costs	\$ 1,024,267	\$ 142,215	\$ (221,711)	\$ 944,771
Less Accumulated Amortization	<u>(709,543)</u>	<u>(190,947)</u>	<u>221,711</u>	<u>(678,779)</u>
Total Suburban Water Facilities Planning Costs - Net	<u>314,724</u>	<u>(48,732)</u>	<u>-</u>	<u>265,992</u>
Suburban Wastewater Fund				
Facilities & Planning Costs	680,199	457,659	(29,941)	1,107,917
Less Accumulated Amortization	<u>(316,111)</u>	<u>(232,454)</u>	<u>29,941</u>	<u>(518,624)</u>
Total Suburban Wastewater Planning Facilities Costs - Net	<u>364,088</u>	<u>225,205</u>	<u>-</u>	<u>589,293</u>
Total Planning Facilities Costs - Net	<u>\$ 678,812</u>	<u>\$ 176,473</u>	<u>\$ -</u>	<u>\$ 855,285</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT

Long-term debt for 2016 and 2015 consists of the following:

	Balance Outstanding As of 12/31/15	Additions / Accretions	Retirements	Balance Outstanding As of 12/31/16	Principle Due Within One Year
Suburban Water Fund					
Water Revenue Bonds					
Series of 2010 A	\$ 11,590,000	\$ -	\$ -	\$ 11,590,000	\$ -
Water Revenue Bonds					
Series of 2011	769,280	-	(109,340)	659,940	104,415
Water Revenue Bonds					
Series of 2015	6,281,055	-	(1,008,240)	5,272,815	1,021,120
Water Revenue Bonds					
Series of 2015 A	9,232,000	-	(288,600)	8,943,400	297,200
2007 State Pennw orks					
Note	2,149,641	-	(162,646)	1,986,995	165,931
2011 Pennsylvania Infrastructure					
Investment Authority Note	1,290,914	-	(71,170)	1,219,744	71,182
Total Suburban Water Fund Debt	\$ 31,312,890	\$ -	\$ (1,639,996)	\$ 29,672,894	\$ 1,659,848
Less Current Maturities				(1,659,848)	
Net Suburban Water Fund					
Long-Term Debt				\$ 28,013,046	
Suburban Wastewater Fund					
2009 Pennsylvania Infrastructure					
Investment Authority Note	\$ 4,157,973	\$ -	\$ (230,972)	\$ 3,927,001	\$ 234,836
2011 Sew er Revenue Bonds					
Series A	1,782,769	-	(85,948)	1,696,821	61,108
2011 Sew er Revenue Bonds					
Series B	128,167	-	(128,167)	-	-
2013 Pennsylvania Infrastructure					
Investment Authority Note	2,703,890	-	(135,057)	2,568,833	136,414
2015 Pennsylvania Infrastructure					
Investment Authority Note	421,852	394,994	(38,354)	778,492	37,574
Total Suburban Wastew ater Fund Debt	\$ 9,194,651	\$ 394,994	\$ (618,498)	\$ 8,971,147	\$ 469,932
Less Current Maturities				(469,932)	
Net Suburban Wastew ater Fund					
Long-Term Debt				\$ 8,501,215	
City Division Fund					
2013 Water and Sew er Revenue					
Bonds, Series A	\$ 245,590,000	\$ -	\$ -	\$ 245,590,000	\$ -
2013 Water and Sew er Capital					
Appreciation Revenue Bonds,					
Series B	49,602,860	2,862,150	-	52,465,010	-
2013 Water and Sew er Revenue					
Bonds, Series C	18,735,000	-	-	18,735,000	-
Subtotal	\$ 313,927,860	\$ 2,862,150	\$ -	\$ 316,790,010	\$ -
Less Bond Discount	(10,131,903)	-	316,620	(9,815,283)	
Total City Division Fund Debt	\$ 303,795,957	\$ 2,862,150	\$ 316,620	306,974,727	
Total Net Long-Term Debt				\$ 343,488,988	

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

	Balance Outstanding As of <u>12/31/14</u>	Additions / <u>Accretions</u>	Retirements	Balance Outstanding As of <u>12/31/15</u>	Principle Due Within One <u>Year</u>
Suburban Water Fund					
Water Revenue Bonds					
Series of 2008	\$ 9,465,000	\$ -	\$ (9,465,000)	\$ -	\$ -
Water Revenue Bonds					
Series of 2010 A	11,590,000	-	-	11,590,000	-
Water Revenue Bonds					
Series of 2010 AA	6,890,000	-	(6,890,000)	-	-
Water Revenue Bonds					
Series of 2011	875,664	-	(106,384)	769,280	101,566
Water Revenue Bonds					
Series of 2015	-	6,486,000	(204,945)	6,281,055	1,008,240
Water Revenue Bonds					
Series of 2015 A	-	9,232,000	-	9,232,000	288,600
2007 State Pennw orks					
Note	2,309,070	-	(159,429)	2,149,641	162,647
2011 Pennsylvania Infrastructure					
Investment Authority Note	1,361,348	-	(70,434)	1,290,914	71,152
Subtotal	<u>\$ 32,491,082</u>	<u>\$ 15,718,000</u>	<u>\$ (16,896,192)</u>	<u>\$ 31,312,890</u>	<u>\$ 1,632,205</u>
Bond Premium Liability	80,482	-	(80,482)	-	
Total Suburban Water Fund Debt	<u>\$ 32,571,564</u>	<u>\$ 15,718,000</u>	<u>\$ (16,976,674)</u>	<u>31,312,890</u>	
Less Current Maturities				(1,632,205)	
Net Suburban Water Fund					
Long-Term Debt				<u>\$ 29,680,685</u>	
Suburban Wastewater Fund					
2009 Pennsylvania Infrastructure					
Investment Authority Note	\$ 4,406,406	\$ -	\$ (248,433)	\$ 4,157,973	\$ 230,950
2011 Sew er Revenue Bonds					
Series A	1,868,705	-	(85,936)	1,782,769	80,489
2011 Sew er Revenue Bonds					
Series B	315,745	-	(187,578)	128,167	128,167
2013 Pennsylvania Infrastructure					
Investment Authority Note	2,691,700	146,559	(134,369)	2,703,890	135,057
2015 Pennsylvania Infrastructure					
Investment Authority Note	-	421,852	-	421,852	38,354
Total Suburban Wastew ater Fund Debt	<u>\$ 9,282,556</u>	<u>\$ 568,411</u>	<u>\$ (656,316)</u>	<u>\$ 9,194,651</u>	<u>\$ 613,017</u>
Less Current Maturities				(613,017)	
Net Suburban Wastew ater Fund					
Long-Term Debt				<u>\$ 8,581,634</u>	
City Division Fund					
2013 Water and Sew er Revenue					
Bonds, Series A	\$ 245,590,000	\$ -	\$ -	\$ 245,590,000	\$ -
2013 Water and Sew er Capital					
Appreciation Revenue Bonds,					
Series B	46,898,566	2,704,294	-	49,602,860	-
2013 Water and Sew er Revenue					
Bonds, Series C	18,735,000	-	-	18,735,000	-
Subtotal	<u>\$ 311,223,566</u>	<u>\$ 2,704,294</u>	<u>\$ -</u>	<u>\$ 313,927,860</u>	<u>\$ -</u>
Less Bond Discount	(10,448,525)	-	316,622	(10,131,903)	
Total City Division Fund Debt	<u>\$ 300,775,041</u>	<u>\$ 2,704,294</u>	<u>\$ 316,622</u>	<u>303,795,957</u>	
Total Net Long-Term Debt				<u>\$ 342,058,276</u>	

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

A summary of the long-term payable is provided in the ensuing paragraphs.

A. Suburban Division Water Fund

On December 21, 2011, the Authority issued \$1,185,400 of 2011 Water Bonds to refinance the balance of the 2001 Pennvest loan and to cover financing costs. The maturity date for the new bonds remained at July 1, 2022 and carries a fixed interest rate of 2.75%. The loan is secured by a pledge of the gross receipts and revenues of the water system and resulted in a 2% present value savings of refunded principal.

On October 10, 2007 the Authority entered into an agreement with the Commonwealth of Pennsylvania for a “Pennworks” loan and grant. The \$3,000,000 loan was used to reimburse the Authority for a portion of the cost of various Water projects with a \$2,000,000 grant also available to cover additional expenditures. The loan that matures on November 1, 2027 are secured by water system revenues and carry a 2% interest rate.

On June 18, 2008, the Authority issued a \$10,000,000 water revenue bond through PNC Bank to fund various water projects. The loan agreement specified that the Authority will be reimbursed for costs incurred through June 18, 2010 after which any funds not yet reimbursed would be disbursed to the Authority. As of December 31, 2010, the Authority had spent all of the bond proceeds on eligible projects. The revenue bond was paid off with the issuance of the 2015 Series A water revenue bond.

The loan has a fixed interest rate of 3.55% on the outstanding balances through November 1, 2015 (Fixed rate Period). Thereafter, a variable rate equal to 120 basis points over the 30 day LIBOR index times 65% takes effect and resets on the first business day of each month.

In determining the variable interest rate for the life of the issue the Authority used the LIBOR one month rate as of December 31, 2014 to calculate an applicable effective rate of .88628%.

The Authority has the option to prepay any amount of the outstanding debt without penalty with the first principal payment due on November 1, 2013 and the final payment due November 1, 2026.

The loan is secured by the gross receipts and revenues of the water system. The lender has the right to put the bond back to the Authority by providing written notice to the Authority at least six months prior to the expiration of the Fixed Rate Period.

On March 30, 2010, the Authority issued Series A taxable Build America Bonds in the amount of \$11,590,000 to be used to finance water capital projects over the next several years. The bond issue matures in November 2031 and carries a net effective interest rate of 3.75876% when considering a 35% subsidy interest expense return from the Federal government. Water system revenue serves as collateral for the bonds.

Also on March 30 2010 the Authority issued Series AA tax exempt Water Revenue bonds in the amount of \$10,070,000. The bonds were issued at a premium of \$137,969 and used to refund a portion of the outstanding 2001 Series bonds (\$7,241,650), retire the remaining 2003 bonds (\$613,154), apply additional funds toward capital projects (\$2,224,387) and to fund issuance costs (\$128,778). The bonds carry a net effective interest rate of 2.69% maturing in November 2021 and are secured by a pledge of system revenues. The revenue bonds were paid off with the issuance of the 2015 Series AA water revenue bond.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

The refunding resulted in a difference between the reacquisition price (amount placed in escrow and the old bonds outstanding) and the net carrying amount of the old debt (bonds due at maturity adjusted for unamortized issuance costs related to the refunded issues). In accordance with GASB #65, the difference of \$1,063,182 is reported in the financial statements as a deferred outflow and is being amortized as interest expense over what would have been the remaining life of the old debt. The refunding decreased the Authority's total debt service payments by \$400,107 and resulted in an economic gain of \$242,757.

On May 20, 2015 the Authority issued Water Revenue Bond Series 2015 in the amount of \$6,486,000. The bonds were issued to currently refund the 2010 outstanding water revenue bonds Series AA bonds and to fund issuance costs. The bond carries a fixed interest rate of 1.6% per annum, payable commencing on November 1, 2015 and semi-annually thereafter on the interest payment date until November 1, 2020, at which time the fixed rate shall be reset by the Bank to a floating or variable interest rate equivalent to the rate which is 60% of the National Prime Rate of Interest as published in the Wall Street Journal. At no time and in no instance shall the variable interest rate exceed 2.75% during the variable rate period. The bond matures in November 2021 and is secured by a pledge of system revenues. The refunding decreased the Authority's total debt service payments by \$755,492 and resulted in an economic gain of \$757,165.

In determining the variable interest rate for the issue the Authority used the National Prime Interest Rate as published in the Wall Street Journal as of December 31, 2016 to calculate an applicable effective rate of 2.3%.

On October 29, 2015 the Authority issued Water Revenue Bond Series A of 2015 in the amount of \$9,232,000. The bond was issued to currently refund the 2008 outstanding water revenue bond and to fund issuance costs. The bond carries a fixed interest rate of 2.41% per annum, payable commencing on May 1, 2016 and semi-annually thereafter on the interest payment date until November 1, 2023, at which time the fixed rate shall be reset to a floating or variable interest rate equivalent to the rate which is 66% of the 30 day London Inter Bank Offering Rate ("30 Day LIBOR) plus 135 basis points or its equivalent. At no time and in no instance shall the variable interest rate exceed 3.75% during the variable rate period. The bond matures in November 2026 and is secured by a pledge of system revenues. The refunding increased the Authority's total debt service payments by \$719,340 and resulted in an economic loss of \$684,295.

In determining the variable interest rate for the issue the Authority used the 30 Day LIBOR as of December 31, 2016 to calculate an applicable effective rate of 1.8%.

On June 29, 2011, Pennvest approved a \$1,660,303 loan to the Authority for a Water Meter Replacement program. Terms of the loan provide that the Authority will be reimbursed up to the limit of the loan amount. Interest payments commenced on November 1, 2011. Principal payments began on October 1, 2012. The loan carries a 1% interest rate for the first five years and a 1.51% annual interest rate for the remainder of the 20 year term. The debt is secured by the project collateral.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

The schedule of principal maturity and annual debt service for the suburban water fund is as follows:

Year	Principal Amount	Total Interest	Total Debt Service
2017	\$ 1,659,848	\$ 1,017,658	\$ 2,677,506
2018	1,693,003	991,196	2,684,199
2019	1,724,917	959,664	2,684,581
2020	1,761,153	927,473	2,688,626
2021	1,771,455	901,671	2,673,126
2022-2026	9,370,570	3,836,860	13,207,430
2027-2031	11,627,173	1,979,936	13,607,109
2032	<u>64,775</u>	<u>408</u>	<u>65,183</u>
	<u>\$ 29,672,894</u>	<u>\$ 10,614,866</u>	<u>\$40,287,760</u>

B. Suburban Wastewater Fund

On December 21, 2011, the Authority refinanced the balance of the 1997 Pennvest loan with the 2011 Sewer Series B bonds (\$868,900). The maturity date of September 1, 2016 remained the same, with the new bonds carrying a fixed interest rate 2.19%. The bonds are secured by the revenues collected in the Western Lehigh Interceptor System and the refunding resulted in a 2.88% present value savings.

On December 21, 2011, the balance of the 2000 Pennvest loan was refinanced by the 2011 Sewer Series A bonds. The new bonds (\$2,166,100) also provided additional funds to pay for a portion of the Vera Cruz sewer project and to cover bond issue financing costs. The funds are to be drawn down as needed by the Authority to fund the Vera Cruz project. Through December 31, 2015, \$2,048,006 was drawn down to the Authority. The maturity date for the new bonds is November 1, 2031. The revenues of the common rate collector systems are serving as loan collateral. The loan carries an interest rate of 2.25% for the first 5 years and a variable rate thereafter, which equates to 70% of the 10 year average prime rate with 3% minimum and 5.5% maximum rate caps.

On November 16, 2009, the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a loan of \$5,878,847 to the Authority to fund the design and construction of a 3 million gallon flow equalization basin and pump station. The purpose of the project is to shave off and hold wet weather flows to address system capacity deficiencies during precipitation events. The loan carries an annual interest rate of 1.274% for the first five years and 2.547% for the remainder of the loan.

The loan is secured by a pledge of gross receipts and revenues obtained from users of the Western Lehigh Interceptor System. The Authority may not prepay at any time all or any portion of the unpaid principal without the prior written consent of Pennvest. As of December 31, 2012, the Authority received all (\$5,389,323) of the reimbursements for project expenditures. The Authority began paying both interest and principal on February 1, 2011.

On June 19, 2013 the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a loan of \$2,931,170 to the Authority to fund the design and construction of a 40,000 gpd wastewater treatment plant to be built at Arcadia West to replace the existing plant. As of December 31, 2015 the Authority received all (\$2,931,170) of the reimbursement for project expenditures. The loan carries an interest rate of 1% for the first 5 years and 1.51% thereafter, for a period of 15 years.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG TERM DEBT (Continued)

On February 25, 2015 the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a loan of \$1,000,000 to the Authority to fund the Wynnewood Terrace pump station and force main replacement. Through December 31, 2016, \$816,846 was drawn down and \$38,354 has been repaid by the Authority. The loan carries an interest rate of 1% for the first 5 years and 1.743% thereafter, for a period of 15 years.

The schedule of principal maturity and debt service for the suburban wastewater fund is as follows:

Year	Principal Amount	Total Interest	Total Debt Service
2017	\$ 469,932	\$ 214,102	\$ 684,034
2018	484,637	210,412	695,049
2019	491,634	206,115	697,749
2020	546,029	195,887	741,916
2021	549,034	184,072	733,106
2022-2026	2,953,176	679,728	3,632,904
2027-2031	2,900,501	230,220	3,130,721
2032-2036	576,204	14,391	590,595
Total	<u>\$ 8,971,147</u>	<u>\$ 1,934,927</u>	<u>\$ 10,906,074</u>

C. CITY DIVISION FUND

On July 31, 2013, the Authority issued, in aggregate \$307,683,599 of Water and Sewer Revenue Bonds comprised of \$245,590,000 of Series 2013A Revenue Bonds, \$43,358,599 of Series 2013B Capital Appreciation Revenue Bonds and \$18,735,000 of Series 2013C Federally Taxable Revenue Bonds. The bonds were issued at a discount of \$10,923,458.

The 2013 bonds were issued to provide funding for i) a single, up-front concession and lease payment to the City of Allentown pursuant to the Allentown Water and Sewer utility system Concession and Lease Agreement, ii) projected capital improvements to the Concessioned System, iii) deposits to certain reserve and other funds, and iv) transaction costs and expenses incurred in connection with the acquisition of the Concessioned System and the issuance of the 2013 Bonds.

The 2013 Bonds were issued under and secured by a Trust Indenture between the Authority and Manufacturers and Traders Trust Company, the concession trustee. The 2013 Bonds are payable from and secured by a pledge and an assignment by the authority of all the concessionaire interest, including revenues derived from operating the Concessioned System certain service charges imposed by the Authority for use of the Concessioned System and certain payments received from the municipal customers of the Concessioned System.

The 2013 Bonds are also secured by a Debt Service Reserve Fund initially funded at \$28,090,273 and held by the Concession Trustee and other funds including an Operations and Maintenance Reserve Fund and a Major Maintenance Reserve Fund in the amounts of \$9,199,515 and \$7,500,000 respectively. These funds are available to pay shortfalls in the scheduled debt service on the 2013 Bonds.

The Series 2013A bonds bear interest of 5% - 5.125% with final maturity on December 1, 2047. The Series 2013 Appreciation bonds bear interest of 3.21% - 6.21% with final maturity on December 1, 2038. The Series 2013C Federally Taxable bonds bear interest of 3.44% and mature on December 1, 2018.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG TERM DEBT (Continued)

The schedule of principle maturity and debt service for the City division is as follows:

Year	Principal Amount	Total Interest	Total Debt Service
2017	\$ -	\$ 13,047,722	\$ 13,047,722
2018	18,735,000	13,047,722	31,782,722
2019	408,997	12,444,241	12,853,238
2020	791,433	12,526,805	13,318,238
2021	1,139,345	12,658,893	13,798,238
2022-2026	9,801,173	67,025,015	76,826,188
2027-2031	14,045,358	77,570,830	91,616,188
2032-2036	17,590,447	96,845,741	114,436,188
2037-2041	22,953,257	82,543,179	105,496,436
2042-2046	132,335,000	38,599,688	170,934,688
2047	<u>98,990,000</u>	<u>5,073,241</u>	<u>104,063,241</u>
Total	<u>\$ 316,790,010</u>	<u>\$ 431,383,077</u>	<u>\$ 748,173,087</u>

NOTE 9 – INTERFUND BALANCES

During the course of its operations, the Authority has numerous transactions between funds to finance operations and provide services. The Suburban Water fund has financed the construction and expansion of the Authority's Operation Center and Information Technology Upgrades and is being reimbursed over time by the Suburban Wastewater fund for its share of the costs. Certain cost incurred by the City Division fund, were initially paid by the Suburban Water fund, and will be reimbursed to the Suburban Water fund from the City Division fund. For reporting purposes, the transactions of the Internal Service are included with the Suburban Water and Suburban Wastewater and City Division funds on a proportional basis. The interfund receivables and payables are as follows:

<u>Fund</u>	<u>2016</u>		<u>2015</u>	
	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Enterprise Funds:				
City Division	\$ 21,165	\$ -	\$ -	\$ 21,329
Suburban Water	1,428,079	-	1,393,873	-
Suburban Wastewater	<u>-</u>	<u>1,449,244</u>	<u>-</u>	<u>1,372,544</u>
Total	<u>\$ 1,449,244</u>	<u>\$ 1,449,244</u>	<u>\$ 1,393,873</u>	<u>\$ 1,393,873</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 10 – DEVELOPER DEPOSITS

Developer Deposits represent funds received by the Authority from developers to cover the costs of plan reviews and project inspections and to ensure that infrastructure improvements are constructed in accordance with approved plans. Deposits for developments to be completed within one year are recorded as current liabilities in the amount of \$572,614 and \$108,070 as of December 31, 2016 and 2015, respectively. Deposits for developments not expected to be completed by the end of one year are recorded as long-term liabilities in the amount of \$5,156,062 and \$4,732,180 as of December 31, 2016 and 2015, respectively.

NOTE 11 – COMMITMENTS & CONTINGENCIES

In addition to the commitments disclosed in Note 6 related to the Service Concession Arrangement, the Authority as of December 31, 2016, through contractual agreements, had construction commitments of \$3,744,059 for various capital projects as compared to \$4,951,852 at year-end 2015. Operating and Capital reserves, construction note proceeds and grants will fund these expenditures.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

Health & Welfare Plan For Suburban Employees

Plan Description: The Authority through the Pennsylvania Municipal Health Insurance Cooperative offers eligible retirees health insurance benefits. Any employee hired prior to January 1, 2005 and retiring with at least 10 years of service is eligible to receive medical and prescription drug coverage at age 65 (as a supplement to Medicare). This coverage will include the spouse of the retiree as long as the retiree is living. The plan is reported as the Post Employment Health Trust Fund in the accompanying financial statements, and does not issue stand-alone statements.

Funding Policy: The contribution requirement was established through a resolution and may be amended at board discretion. For active employees, however, it is the board's opinion that coverage for existing retirees must be maintained. The plan currently requires eligible retirees to contribute 21% of the annual premium.

Funding Status and Progress: As of January 1, 2014, the most recent actuarial valuation date, the plan was 114.15% funded. The actuarial accrued liability for benefits was \$2,220,252 and the actuarial value of assets was \$2,534,503, resulting in an unfunded actuarial accrued liability (UAAL) of (\$314,251). The Authority plans to reimburse itself semi-annually for its portion (79%) of benefit cost.

Payroll for 2016 of active employees covered by the plan was \$1,378,259 and the ratio of UAAL to covered payroll is 22.80%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions on mortality and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net Obligation: The Authority's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB costs for Suburban Employees, contributions to the plan, and changes in the net OPEB asset:

	<u>2016</u>	<u>2015</u>
Annual Required Contribution	\$ (11,227)	\$ (10,366)
Interest on Net OPEB Asset	(68,912)	(69,774)
ARC Adjustment	<u>95,381</u>	<u>94,519</u>
OPEB Cost	15,242	14,379
Employer Contribution	<u>-</u>	<u>-</u>
Change in Net OPEB Asset	15,242	14,379
Net OPEB (Asset) Obligation – beginning of year	<u>(1,148,526)</u>	<u>(1,162,905)</u>
Net OPEB (Asset) Obligation – end of year	<u>\$(1,133,284)</u>	<u>\$(1,148,526)</u>

The Authority's annual OPEB cost, the % of annual OPEB cost contributed to the plan and the net OPEB asset were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/(Asset)</u>
12/31/14	\$ 13,565	0%	\$ (1,162,905)
12/31/15	14,379	0%	(1,148,526)
12/31/16	15,242	0%	(1,133,284)

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the January 1, 2014 actuarial valuation, the Entry Age Normal cost method expressed as a level dollar was used. The actuarial assumptions include a 6% investment rate of return, which is the expected long-term investment yield on the investments that are expected to be used to finance the payments of benefits. In addition, a discount rate of 6% and a health care cost trend rate of (4.9%) for 2015 and 5% thereafter is assumed. Both the discount rate and the health care cost trend rate include an inflation component of 3%. The actuarial assumptions also included a retirement age of 65. The UAAL is being amortized over a closed period of 30 years. The remaining amortization period at December 31, 2016 is 22 years.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Health & Welfare Plan For City Division Employees

Plan Description: The Authority offers eligible retirees health insurance and prescription drug benefits in accordance with a memorandum of agreement with the Service Employees International Union Local 32BJ. The benefits provided to Other Key Employees hired, were the same as those provided to Union Employees. Any employee retiring with a minimum age of 55 and 20 years of service or retiring at the age of 60 with 10 years is eligible to receive medical and prescription drug coverage until they reach the age of 65. This coverage will include the spouse of the retiree until the retiree or spouse attains the age of 65 and dependent child coverage that ends when the dependent child reaches the age of 26 or the retiree reaches the age of 65. The plan does not issue a publicly available financial report.

Funding Policy: The plan requires eligible retirees with 15 years of service to contribute 25% of the annual premium and retirees with more than 10 years of service but less than 15 years of service to contribute 50% of the premium. The Authority funds the plan on a pay-as-you-go basis. For 2016, the Authority's contribution to the plan was \$38,191.

Funding Status and Progress: As of January 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$1,721,584 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,721,854.

Payroll for 2016 of active employees covered by the plan was \$3,370,706 and the ratio of UAAL to covered payroll is 51.08%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions on mortality and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Annual OPEB Cost and Net Obligation: The Authority's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employee (ARC), an amount actuarially determined in accordance with GASB statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB costs for City Division Employees, contributions to the plan, and changes in the net OPEB obligation:

	<u>2016</u>	<u>2015</u>
Annual Required Contribution	\$ 248,412	\$ 234,091
Interest on Net OPEB Obligation	18,643	10,656
ARC Adjustment	<u>(32,252)</u>	<u>(17,931)</u>
OPEB Cost	234,803	226,816
Employer Contribution	<u>38,191</u>	<u>27,127</u>
Change in Net OPEB Obligation	196,612	199,689
Net OPEB Obligation – beginning of year	<u>466,083</u>	<u>266,394</u>
Net OPEB Obligation – end of year	<u>\$ 662,695</u>	<u>\$ 466,083</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Authority’s annual OPEB cost, the % of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/14	\$ 218,643	6.55%	\$ 266,394
12/31/15	226,816	11.96%	466,083
12/31/16	234,803	16.27%	662,695

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the January 1, 2014 actuarial valuation, the Entry Age Normal cost method expressed as a level dollar was used. The actuarial assumptions include a 4% investment rate of return, which is the expected long-term investment yield on the investments that are expected to be used to finance the payments of benefits and a health care cost trend rate of (1%) for 2015, 8% for 2016 and reduced by .5% per year thereafter to an ultimate level of 5%. Both the discount rate and the health care cost trend rate include an inflation component of 3%. The actuarial assumptions include 100% participation of eligible retirees, 80% of all future retirees are assumed to be married. The UAAL is being amortized over a closed period of 25 years. The remaining amortization period is 22 years at December 31, 2016.

NOTE 13 – NET POSITION

The basic financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net investment in capital assets is intended to reflect the portion of net position that are associated with non-liquid, capital assets, less outstanding capital asset related debt. Restricted assets are liquid assets generated from revenues that have third-party (statutory, bond covenant or water user) limitation on their use. Unrestricted net position are amounts that do not meet the definitions of “invested in capital assets” or “restricted assets” and are available for Authority operations.

It is the Authority’s policy to first use restricted assets prior to the use of unrestricted net position when an expenditure is incurred for purposes for which both restricted and unrestricted assets are available.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 14 – DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plan

Plan Description. The Authority, through a January 2014 agreement, provides employee pension benefits through participation in the Pennsylvania Municipal Retirement System (PMRS). The PMRS was created by the Pennsylvania General Assembly in 1974 with the passage of the Pennsylvania Municipal Retirement Law 1974, P.L. 34, No. 15. PMRS administers pension plans on a contracted basis for any municipality or institution supported and maintained by a Pennsylvania municipality. This agent multiple-employer public employee retirement system maintains each municipality's account separately with that municipality's contributions and related employee contributions, and earnings segregated into separate accounts. PMRS issues a separate Comprehensive Annual Financial Report, which can be obtained by contacting the PMRS accounting office at P.O. Box 1165, Harrisburg, PA 17108-1165.

Benefits Provided. Benefit terms were established under the 2014 agreement between PMRS and the Authority, changes to benefit terms can only occur by modification of this agreement. Major provisions of the 2014 agreement include the following:

All full-time and permanent part-time Authority employees are required to participate in the System. Benefits vest after eight years of service. Employees can retire with an annual retirement benefit after 20 years of service provided age 55 has been attained, or at age 60.

The normal form of payment of retirement benefits is a monthly annuity available for the life of the retired employee. One and two-thirds percent of the employee's average salary for the three consecutive years of greatest compensation multiplied by the number of years of service, and any fraction thereof, is used to calculate the normal retirement benefit funded solely by the Authority's contributions. Supplemental benefits are derived from employee contributions and interest earnings of the fund. A retiree may elect to receive a reduced amount of benefit and provide a death benefit in the form of annuity or lump sum to the designated beneficiary. The plan also provides death and disability benefits for an active employee.

Depending upon the annual investment return, the plan may award excess interest earnings to participating municipalities. The municipalities have the option of either retaining such excess earnings or sharing the additional earnings with active employees and retirees. In all years when excess interest earnings have been awarded, the Authority has elected to pro-ratably share excess earnings resulting in a postretirement increase to retirees. Sharing of excess earnings is the only method available for increasing postretirement benefits.

The plan does not allow for any cost-of-living adjustments to an employee's retirement allowance subsequent to the employee's retirement date.

Employees Covered by Benefit Terms. At December 31, 2014, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	18
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	148
Total	<u>169</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 14 – DEFINED BENEFIT PENSION PLAN (Continued)

A. General Information about the Pension Plan (Continued)

Contributions. Required contributions to the plan are governed by the 2014 agreement. The PMRS Board will actuarially determine the normal cost of the benefits provided under the contract (2014 agreement) and any liability associated with the actuarial experience of such benefits which shall be contributed annually by the Authority. The PMRS Board shall determine and the Authority shall be charged an additional amount to be contributed annually toward a reserve account for any disability benefit which may be payable under the contract (2014 agreement). The amounts so determined shall be computed in accordance with the Municipal Pension Plan Funding Standard and Recovery Act, 53 P.S. §895.101 et seq., and the PMRL. Members shall contribute one percent of their compensation to fund the annuity. Members may optionally contribute up to, but no more than an additional ten percent of their compensation. For the year ended December 31, 2016, the average active employee contribution rate was 1.0% of annual pay, and the Authority's average contribution rate was 10.12% of covered annual payroll.

B. Net Pension Liability

The Authority's net pension liability was measured as of December 31, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The actuary utilized update procedures to roll forward the total pension liability in the December 31, 2014 actuarial valuation to the December 31, 2015 measurement date.

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation were determined using the following actuarial assumptions:

Investment rate of return	5.5%, net of pension plan investment expense, including inflation
Projected salary increases	Age/Merit Scale including inflation ranging from 3.0% to 8.3%
Inflation	3.0%

Mortality rates Pre-Retirement were based on the RP-2000 Scale with 1 year set back for males and 5 year set back for females. Mortality rates Post-Retirement were based on the RP-2000 Sex-Distinct Mortality Table. The current mortality assumptions, while not reflecting projections for improvements are subject to experience review every four years at which time recommendations of changes to reflect changes in experience over those expected from the tables applied over the five year period preceding the experience analysis are received and reviewed by the Board. Such experience is required by State statute.

The actuarial assumptions used in the December 31, 2014 valuation were based on the PMRS Experience Study for the period covering January 1, 2005 through December 31, 2008 issued by the actuary in July 2010 as well as subsequent Board approved assumption changes.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 14 – DEFINED BENEFIT PENSION PLAN (Continued)

B. Net Pension Liability (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equities (large capitalized firms)	25%	2.9%
Domestic Equities (small capitalized firms)	15%	2.9%
International Equities (international developed markets)	15%	1.7%
International Equities (emerging markets)	10%	3.2%
Real Estate	20%	3.0%
Fixed Income	15%	1.0%
Total	<u>100%</u>	

Discount rate. The discount rate used to measure the total pension liability was 5.5% for both years. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rates and employers will continue the historical and legally required practice of contributing to the Plan based on an Actuarially Determined Contribution, reflecting a payment equal to annual Normal Cost, the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period. Based on these assumptions the pension plan's projected Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 14 – DEFINED BENEFIT PENSION PLAN (Continued)

C. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/2015 (based on 12/31/2014 measurement date)	\$ 20,173,343	\$ 18,737,775	\$ 1,435,568
Changes for the year:			
Service cost	1,488,350	-	1,488,350
Interest	1,163,405	-	1,163,405
Changes of benefits	-	-	-
Changes of assumptions	209,677	-	209,677
Contributions - employer	-	978,336	(978,336)
Contributions - member	-	507,893	(507,893)
Net investment income/(loss)	-	(99,517)	99,517
Benefit payments, including refunds of employee contributions	(600,285)	(600,285)	-
Administrative expense	-	(52,516)	52,516
Net changes	<u>2,261,147</u>	<u>733,911</u>	<u>1,527,236</u>
Balances at 12/31/16 (based on a 12/31/15 measurement date)	<u>\$ 22,434,490</u>	<u>\$ 19,471,686</u>	<u>\$ 2,962,804</u>

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 1/1/15	\$ 18,672,616	\$ 17,536,948	\$ 1,135,668
Changes for the year:			
Service cost	677,165	-	677,165
Interest	1,038,585	-	1,038,585
Changes of benefits	-	-	-
Changes of assumptions	-	-	-
Differences between expected and actual experience	329,959	-	329,959
Contributions - employer	-	365,907	(365,907)
Contributions - member	-	473,935	(473,935)
Net investment income/(loss)	-	947,378	(947,378)
Benefit payments, including refunds of employee contributions	(544,982)	(544,982)	-
Administrative expense	-	(41,411)	41,411
Net changes	<u>1,500,727</u>	<u>1,200,827</u>	<u>299,900</u>
Balances at 12/31/15	<u>\$ 20,173,343</u>	<u>\$ 18,737,775</u>	<u>\$ 1,435,568</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 14 – DEFINED BENEFIT PENSION PLAN (Continued)

C. Changes in the Net Pension Liability (Continued)

The December 31, 2015 measurement date reflects changes in assumptions for Projected salary increases for Age/Merit Scale ranging from 2.8% to 7.05%, and changes to Mortality rates Pre-Retirement RP-2000 Non-Annuitant table projected 15 years with Scale AA for males and a 5 year setback for females, Mortality rates Post-Retirement were based on the RP-2000 Annuitant table projected 5 years for males and projected 10 years for females with Scale AA.

Sensitivity of the pension liability to changes in the discount rate. The following presents the net pension liability of the Authority, calculated using the discount rate of 5.5%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5%) or 1-percentage-point higher (6.5%) than the current rate:

	1% Decrease <u>(4.5%)</u>	Current Discount Rate <u>(5.5%)</u>	1% Increase <u>(6.5%)</u>
Authority's net pension liability 12/31/15	\$5,258,705	\$2,962,804	\$1,028,295
Authority's net pension liability 12/31/14	3,543,739	1,435,568	(360,623)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issues PMRS financial report.

D. Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2016, the Authority recognized pension expense of \$260,254, \$131,010, and \$966,348 in the Suburban Water Fund, Suburban Wastewater Fund, and City Fund, respectively.

For the year ended December 31, 2015, the Authority recognized pension expense of \$65,896, \$33,171, and \$244,676 in the Suburban Water Fund, Suburban Wastewater Fund, and City Fund, respectively.

At December 31, 2016 and 2015 the Authority reported deferred outflows of resources related to pensions from the following sources:

	2016 <u>Deferred Outflows of Resources</u>	2015 <u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 247,469	\$ 288,714
Changes in assumptions	183,467	-
Net difference between projected and actual earnings on pension plan investments	1,039,488	33,350
Contributions subsequent to the measurement date	<u>972,122</u>	<u>978,335</u>
Total	<u>\$ 2,442,546</u>	<u>\$ 1,300,399</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 14 – DEFINED BENEFIT PENSION PLAN (Continued)

D. Pension Expense and Deferred Outflows of Resources Related to Pensions (Continued)

The \$972,122 reported as deferred outflows of resources related to pensions resulting from the Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017 financial statements. In 2016 the Authority recognized \$197,052, \$99,194, and \$731,672 in pension expense related to December 31, 2015 deferred pension outflows, in the Suburban Water, Suburban Wastewater, and City Division funds, respectively. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 329,412
2018	329,412
2019	329,410
2020	321,074
2021	67,455
Thereafter	93,661

NOTE 15 – DEFERRED COMPENSATION PLAN

In 1990, the Authority entered into an agreement with the International City Management Association (ICMA) to provide a Deferred Compensation Plan in accordance with the Internal Revenue Code, Section 457, on a voluntary basis to full-time employees. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is only available to participants at employment termination, retirement or for an unforeseeable emergency. The Authority makes no contributions to the plan. In accordance with federal law, a trust fund was established for the deposit of Section 457 assets. The trust fund is for the exclusive benefit of plan participants and beneficiaries. Because the assets are not owned by the Authority but are held in a trust, the deferred compensation assets and related liabilities are not recorded in the Authority's financial statements. The Authority's fiduciary responsibilities are to submit participant payroll deductions and enrollment change forms to the plan administrator (Retirement Corporation). Other than reviewing quarterly statements for accuracy, the Authority has no other fiduciary responsibility. Investments are managed by the plan's trustee with various investment options available. The choice of the investment option(s) is made by the employee. Thirty nine & forty six employees contributed into the plan during 2016 and 2015 respectively.

NOTE 16 – RISK MANAGEMENT

The Authority joined the Pennsylvania Intergovernmental Risk Management Association (PIRMA) in August 1991, to obtain General, Public Officials' and Automobile Liability Coverage. PIRMA, which has operated since 1987, is a public entity risk pool providing liability insurance coverage to 608 Pennsylvania municipal entities as of December 31, 2016. In paying claims, the pool covers the first \$350,000 per claim. Thereafter, American Public Entity Excess Pool (APEEP) provides coverage of \$4,650,000 per claim and General Reinsurance Company and Argonaut Insurance Company provide quota share coverage at \$5,000,000 per claim of excess coverage over APEEP for a total coverage of \$10,000,000 per claim. The intergovernmental agreement specifies that in the event a claim or claims exhausts total members' equity, plus excess insurance coverage, then payment for such claim shall be the obligation of the respective individual member. In 2016 and 2015 the Authority paid \$283,040 and \$288,115 to PIRMA as its share of liability insurance premiums, respectively.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 16 – RISK MANAGEMENT (Continued)

The Authority has been a member of the Delaware Valley Workers' Compensation Trust (DVWCT) since 1993. The Trust, a risk sharing pool formed in 1992, is comprised of 79 municipal entities located primarily in Southeastern Pennsylvania. The DVWCT assumes the first \$750,000 of each occurrence with excess insurance providing coverage up to the PA Statutory limit. If reserve funds and surplus are exhausted by claims, the Trust Agreement allows the governing board to levy additional assessments against pool members. Any additional assessments would be equal to the ratio of the participant's annual contribution to the total annual contribution paid by all participants in the trust year in which a deficit occurred. The Trust's surplus position makes an assessment unlikely.

The Authority paid a net premium (after payroll audit) of \$177,504 in 2015 and a gross premium \$224,020 in 2016. As of January 1, 2016, the Authority had accrued \$45,516 in Rate Stabilization Fund (RSF) credits which were available to reduce the Authority's 2016 premium. Any unused RSF credits will be rolled over to 2017, and the Trust will add investment income to the unused balance. The Authority also received dividends from the Trust of \$6,030 in 2016 and \$5,267 in 2015.

The Authority offers employees health care coverage through a PPO (Preferred Provider Organization) Plan using the Pennsylvania Municipal Insurance Cooperative (PMHIC) to purchase such insurance. The purpose of the cooperative, which consists of 237 municipal entities as of October 1, 2015, is to control escalating health care premiums by allowing municipalities the potential for volume discounts. The pool utilizes an Administrative Services arrangement, which uses the insurer (Capital Blue Cross) only for network access and claims management. The pool is self-funding up to the first \$40,000 per claim with reinsurance available to cover costs in excess of the self-funded limit. Annually a reconciliation of premiums paid to claims incurred is developed and if the cooperative has favorable experience, a dividend is returned to those participants who paid more premium than claims incurred. The cooperative uses a third-party administrator to issue bills and act as the liaison and rate negotiator with the insurers. Authority health benefits payments for retirees and active employees, net of reimbursements and dividend returns, for the years ended December 31, 2016 and December 31, 2015 totaled \$722,403 and \$697,560, respectively.

The Authority also purchases property coverage through CNA, brokered through Murray Securus. For 2016 and 2015, insurance costs amounted to \$177,000 and \$175,000, respectively. All other risks of loss including employee bonding, group disability and life insurance are insured through commercial insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past four years.

NOTE 17 – MAJOR CUSTOMER AND ECONOMIC DEPENDENCY

Several service agreements specify that the Authority will provide wastewater service through use of the Western Lehigh and Little Lehigh Relief Interceptor Systems to ten municipalities. As part of this service, the Authority bills certain municipalities for their share of the City of Allentown's treatment and transportation costs and the operating costs of the Western Lehigh and Little Lehigh Relief Interceptor Systems. During 2016 and 2015, two of the municipal customers each provided in excess of 10% of the total operating revenues. Since any reduction in user discharges is offset by lower treatment and transportation costs, and all municipalities share in paying system costs, economic dependency of any one of the customers is absent.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 18 – 2015 RESTATEMENT

The Authority recorded the cumulative effect of applying the provisions of GASB Statement No. 68 and GASB Statement No 71 as a restatement of beginning net position as of January 1, 2015. Net position as of January 1, 2015 was decreased by \$147,563, \$74,282, and \$547,916 in the Suburban Water Fund, Suburban Wastewater Fund, and the City Division fund, respectively. The effect on beginning balances for calendar year 2015 is as follows:

Description	January 1, 2015 as Previously Reported	Restatement	January 1, 2015 as Restated
Deferred outflows of resources from pensions (GASB 68 & 71)			
- Suburban Water Fund	\$ -	\$ 70,145	\$ 70,144
- Suburban Wastewater Fund	-	35,310	35,310
- City Division Fund	-	260,452	260,453
Total	-	365,907	365,907
Net Pension Liability (GASB 68)			
- Suburban Water Fund	-	(217,708)	(217,708)
- Suburban Wastewater Fund	-	(109,592)	(109,592)
- City Division Fund	-	(808,368)	(808,368)
Total	-	(1,135,668)	(1,135,668)
Net position			
- Suburban Water Fund	82,683,845	(147,563)	82,536,282
- Suburban Wastewater Fund	103,234,184	(74,282)	103,159,902
- City Division Fund	(15,444,006)	(547,916)	(15,991,922)
Total	\$170,474,023	\$ (769,761)	\$ 169,704,262

NOTE 19 – SUBSEQUENT EVENT

Lehigh County Authority has filed a dispute claim against the City of Allentown with respect to the handling of signatory revenues related to the related to the assignment of costs subsequently billed to the signatories in prior years. Additionally, a separate dispute claim has been filed against the City with respect to representations made during the course of negotiation on the concession agreement, particularly on the amount of revenues to be obtained from the signatories. Both disputes are following the dispute procedure outlined in the Concession Agreement.

In April 2017 the Lehigh County Authority Board of Directors approved management to move forward with financing of bonds in the amount of \$15,922,864.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY
AND RELATED RATIOS
LAST 10 FISCAL YEARS**

	*	*
	2016	2015
Total Pension Liability		
Service Costs	\$ 1,488,350	\$ 677,165
Interest	1,163,405	1,038,585
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	-	329,959
Changes of Assumptions	209,677	-
Benefit Payments, Including Refunds of Member Contributions	<u>(600,285)</u>	<u>(544,982)</u>
Net Change in Total Pension Liability	2,261,147	1,500,727
Total Pension Liability - beginning	<u>20,173,343</u>	<u>18,672,616</u>
Total Pension Liability - ending (a)	<u><u>\$ 22,434,490</u></u>	<u><u>\$ 20,173,343</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 978,336	\$ 365,907
Contributions - Member	507,893	473,935
Net Investment Income	(99,517)	947,378
Benefit Payments, Including Refunds of Member Contributions	(600,285)	(544,982)
Administrative Expense	<u>(52,516)</u>	<u>(41,411)</u>
Net Change in Plan Fiduciary Net Position	733,911	1,200,827
Plan Fiduciary Net Position - beginning	<u>18,737,775</u>	<u>17,536,948</u>
Plan Fiduciary Net Position - ending (b)	<u><u>\$ 19,471,686</u></u>	<u><u>\$ 18,737,775</u></u>
Authority's Net Pension Liability - ending (a) - (b)	<u><u>\$ 2,962,804</u></u>	<u><u>\$ 1,435,568</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.79%	92.88%
Covered - Employee Payroll	\$ 8,763,140	\$ 2,314,192
Authority's Net Pension Liability as a Percentage of Covered-Employee Payroll	33.81%	62.03%

* - Information only available for two years. Future years will be added as information becomes available.

** - The Authority had changes in assumptions related to mortality rates, retirement rates, and wage scales in the December 31, 2015 measurement date compared to previous measurement dates.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF AUTHORITY CONTRIBUTIONS
LAST 10 FISCAL YEARS**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially Determined Contribution	\$ 972,122	\$ 978,336	\$ 361,607	\$ 190,996	\$ 136,779	\$ 134,456	\$ 99,891	\$ 94,931	\$ 100,078	\$ 73,815
Contribution in Relation to the Actuarially Determined Contribution	972,122	978,736	365,907	190,996	136,779	134,456	99,891	94,931	100,078	73,815
Contribution Deficiency/(Excess)	\$ -	\$ (400)	\$ (4,300)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 9,608,052	\$ 8,763,140	*	\$ 2,220,914	*	\$ 2,563,288	*	\$ 2,352,616	*	\$ 2,085,543
Contribution as a percentage of Covered-Employee Payroll	10.12%	11.17%	*	8.60%	*	5.25%	*	4.04%	*	3.54%

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar Closed
Remaining Amortization Period	10 years
Asset Valuation Method	Based Upon Municipal Reserves in PMRS (Fair Value)
Inflation	3.0%
Salary Increases	Age/Merit Scale including inflation ranging from 3.0% to 8.3%.
Investment Rate of Return	5.5%, net of pension plan investment expense, including inflation.
Pre-Retirement Mortality	Males - RP 2000 with 1 year set back Females - RP 2000 with 5 year set back
Post-Retirement Mortality:	Sex distinct RP-2000 Combined Mortality

* - Information not available

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULES OF FUNDING PROGRESS**

Health & Welfare Plan For Suburban Employees

¹ Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) -Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
01/01/08	\$ -	\$ 1,697,534	\$ 1,697,534	0%	\$ 2,156,414	78.72%
01/01/11	1,974,410	2,043,446	69,036	96.62%	1,894,466	3.64%
01/01/14	2,534,503	2,220,252	(314,251)	114.15%	1,528,660	(20.56)%

Health & Welfare Plan For City Division Employees

² Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) -Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
08/08/13	\$ -	\$ 1,658,670	\$ 1,658,670	0%	\$ 1,325,125	125.17%
01/01/14	-	1,721,854	1,721,854	0%	1,325,125	129.94%

¹ Actuarial valuations are completed every three years.

² Plan established on 8/08/2013 as such only two valuations are presented.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULES OF EMPLOYER CONTRIBUTIONS**

Health & Welfare Plan For Suburban Employees

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Liability/(Asset)</u>
12/31/12	\$ 107,942	\$ -	0%	\$ (1,293,589)
12/31/13	117,119	-	0%	(1,176,470)
12/31/14	13,565	-	0%	(1,162,905)
12/31/15	14,379	-	0%	(1,148,526)
12/31/16	15,242	-	0%	(1,133,284)

Health & Welfare Plan For City Division Employees

² <u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Liability/(Asset)</u>
12/31/13	\$ 70,361	\$ 8,293	11.79%	\$ 62,068
12/31/14	218,643	14,317	6.55%	266,394
12/31/15	226,816	27,127	11.96%	466,083
12/31/16	234,803	38,191	16.27%	662,695

² Plan established on 8/08/2013 as such only four years are presented.

**OTHER
SUPPLEMENTARY
INFORMATION**

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
SUBURBAN WASTEWATER FUND
For the year ended December 31, 2016**

	Western Lehigh Interceptor System	West. Weisenberg Wastewater	Common Rate Wastewater Fund	Other Wastewater Funds	Total Wastewater Fund
Operating Revenues					
Charges for Services	\$ 8,355,407	\$ 295,635	\$ 730,064	\$ 8,914,432	\$ 18,295,538
Other Income	88,088	10,618	62,121	41,594	202,421
Total Operating Revenues	<u>8,443,495</u>	<u>306,253</u>	<u>792,185</u>	<u>8,956,026</u>	<u>18,497,959</u>
Operating Expenses					
Salaries and Wages	166,798	58,424	85,451	129,941	440,614
General and Administrative	274,106	42,447	64,234	183,793	564,580
Utilities	31,211	18,899	39,900	114,638	204,648
Materials and Supplies	49,965	27,511	42,759	69,183	189,418
Miscellaneous Services	198,114	41,647	89,144	6,810,768	7,139,673
Treatment and Transportation	5,328,338	-	250,605	3,067,203	8,646,146
Depreciation and Amortization	513,268	88,685	146,321	3,753,195	4,501,469
Total Operating Expenses	<u>6,561,800</u>	<u>277,613</u>	<u>718,414</u>	<u>14,128,721</u>	<u>21,686,548</u>
Operating Income (Loss)	<u>1,881,695</u>	<u>28,640</u>	<u>73,771</u>	<u>(5,172,695)</u>	<u>(3,188,589)</u>
Nonoperating Revenues (Expenses)					
Tapping and Capital Recovery Fees	1,003,271	24,300	12,977	124,824	1,165,372
Meter Sales	-	-	-	12,000	12,000
Inspection and Plan Reviews	-	9,294	21,387	500	31,181
Interest Earnings	89,368	707	1,525	26,912	118,512
Interest Expense	(99,830)	(26,421)	(66,298)	(2,532)	(195,081)
Other Expense	(25,140)	-	(8,199)	(31,981)	(65,320)
Other Income	-	-	570	420	990
Total Nonoperating Revenues (Expenses)	<u>967,669</u>	<u>7,880</u>	<u>(38,038)</u>	<u>130,143</u>	<u>1,067,654</u>
Increase (Decrease) in net position before capital contributions	<u>2,849,364</u>	<u>36,520</u>	<u>35,733</u>	<u>(5,042,552)</u>	<u>(2,120,935)</u>
Capital Contributions					
Capital Grant	-	-	-	-	-
Capital Assets Provided by Developers and Others	-	520,722	354,243	111,114	986,079
Total Capital Contributions	<u>-</u>	<u>520,722</u>	<u>354,243</u>	<u>111,114</u>	<u>986,079</u>
Increase (Decrease) in Net Position	<u>2,849,364</u>	<u>557,242</u>	<u>389,976</u>	<u>(4,931,438)</u>	<u>(1,134,856)</u>
Net Position at Beginning of Year	<u>30,576,835</u>	<u>2,188,603</u>	<u>8,837,056</u>	<u>60,677,066</u>	<u>102,279,562</u>
Net Position at End of Year	<u>\$ 33,426,199</u>	<u>\$ 2,745,845</u>	<u>\$ 9,227,032</u>	<u>\$ 55,745,628</u>	<u>\$ 101,144,706</u>