



LEHIGH COUNTY AUTHORITY

June 18, 2014

BOARD MEETING AGENDA

1. Call to Order
2. Review of Agenda
 - *Public Participation Sign-In Request*
3. Executive Sessions
4. Approval of Minutes
 - *May 27, 2014 Regular Meeting Minutes*
5. Public Comments
6. Action / Discussion Items

FINANCE AND ADMINISTRATION

- *2013 Audit (Acceptance)*

WATER

- *Allentown Division – Water Main Replacement Program Construction Phase – Cycle 1 (Approval)*

WASTEWATER

- *Wynnewood Terrace Pump Station and Force Main Replacement (Approval)*

7. System Operations Overview
8. Staff Comments
9. Solicitor's Comments
10. Other Comments
11. Adjournment

JULY MEETINGS

Workshop Meeting
Board Meeting

July 14 – 12:00 p.m.
July 28 – 12:00 p.m.

PUBLIC PARTICIPATION POLICY

In accordance with Authority policy, members of the public shall record their name, address, and discussion item on the sign-in sheet at the start of each meeting; this information shall also be stated when addressing the meeting. Members of the public will be allowed 5 minutes to make comments/ask questions regarding non-agenda items, but time may be extended at the discretion of the Chair; comments/questions regarding agenda items may be addressed after the presentation of the agenda item. Members of the public may not request that specific items or language be included in the meeting minutes.

REGULAR MEETING MINUTES
May 27, 2014

The Regular Meeting of the Lehigh County Authority was called to order at 12:23 p.m. on Monday, May 27, 2014, Chairman Asa Hughes presiding. Other Members present at the commencement of the meeting were: Tom Muller, Brian Nagle, Richard Bohner, Emrich Stellar, and Norma Cusick. Authority Staff present were Aurel Arndt, Liesel Adam, Bradford Landon, Frank Leist, Bob Kerchusky, Dan Standish, Pat Mandes, John Parsons, Philip DePoe, and Cristin Keppel.

REVIEW OF AGENDA

Mr. Arndt stated there will be two additional items following the regular agenda, one of which will be discussed in Executive Session.

PUBLIC COMMENTS

None.

EXECUTIVE SESSION

Mr. Arndt stated there would be one Executive Session to discuss legal matters.

APPROVAL OF MINUTES

April 28, 2014 Regular Meeting Minutes

On a motion by Mr. Bohner, seconded by Mr. Nagle, the Board unanimously approved the minutes of the April 28, 2014 Regular Meeting, as amended (6-0).

May 12, 2014 Workshop Meeting Minutes

On a motion by Mr. Bohner, seconded by Ms. Cusick, the Board unanimously approved the minutes of the May 12, 2014 Regular Meeting, as amended (4-0). Messrs. Muller and Stellar abstained.

ACTION AND DISCUSSION ITEMS

Allentown Division – Coagulation Chemical Conversion Study (Approval)

Mr. Parsons referred to the attached memorandum, noting the current maximum design capacity of the water plant is 30 MGD and for the past 84, aluminum sulfate (alum) has been the only coagulant used. During the plant retrofit project of the 1990's, plate settlers were installed and overall clarifier settling times and efficiencies compared to previous times and efficiencies were reduced. Allentown never experienced the anticipated settled water turbidities that were put onto the filters, particularly during storm events. Near the end of the very long and expensive retrofit project, the design engineer suggested that we consider changing from our accepted coagulant to polyaluminum chloride (PACl). Upper management of the water plant at that time rejected the suggestion and the plant has continued using alum ever since. The water plant is currently permitted to use 9 MGD from Schantz Spring and 4 MGD from Crystal Spring. Neither of these sources flows through the chemical treatment portion of the water plant. This translates into the water plant being drastically oversized. With a daily water demand of approximately 16 MGD in 2012, and the springs accounting for 9.3 MGD of that amount, the treatment plant only produced a daily average of 6.6 MGD. With a small production demand combined with over 50 million gallons of storage in the distribution system, the water plant has been able to shut down during storm events. He continued to provide historical information, much of which is found in the attached memorandum. Mr. Parsons explained that a more reliable and effective coagulant which works under adverse conditions is needed to

improve day to day operations of the plant. The water plant is currently permitted to use polyaluminum chloride, and if the conversion from alum does not occur, the water plant must re-permit to continue using alum. Extensive discussion followed. Five engineering firms provided bids for this project; based on extensive review; the Staff recommends services of Gannett Fleming, Inc.

On a motion from Mr. Muller, seconded by Mr. Stellar, the Board unanimously approved a Professional Services Authorization in the amount of \$114,085 (6-0).

On a motion from Ms. Cusick, seconded by Mr. Bohner, the Board unanimously approved a Capital Project Authorization in the amount of \$304,085.

Allentown 28th St. Elevated Tank Rehabilitation; & Multi-Division Steel Tank Reservoir Program
(Approval)

Mr. Leist referred to the previously distributed memorandum and explained the Authority has been using Utility Service Company, Inc. (USC) since 2005 and has been please with their work. The USC contract includes in addition to engineering services, but is not limited to:

- Annual tank inspections for safety, sanitation, structure, security and coatings;
- Scheduled periodic interior inspections executed by remotely operated vehicles (ROV) while the tank is full and physically when the tank is drained;
- Detailed inspection and maintenance reports covering safety, sanitation, structure, security and coatings;
- Engineering and permitting services as needed;
- Interior and exterior tank cleaning including chemical disinfection when required;
- All future interior and exterior coatings;
- Non foundation structural repairs;
- Preventive maintenance, and
- Standby emergency services.

The contracts automatically renew on an annual basis, but LCA has the ability to terminate the contract providing written notification is provided to USC 90-days prior to the renewal date. He stated three tanks in the City Division and one in the Suburban Division will be added to the current contract with USC for maintenance. Mr. Leist also explained that the City of Allentown will be covering the first rehabilitation costs by USC for the 28th Street elevated tank, as the City failed to finish this before the Concession; therefore reimbursing the Authority for the costs to manage the work. Some discussion followed.

On a motion from Ms. Cusick, seconded by Mr. Muller, the Board unanimously approved the Professional Services Authorization for Utility Service Company, Inc. in the amount of \$1, 295, 079; whereas the City of Allentown will reimburse the Authority \$363,524 (6-0).

Allentown Wastewater Treatment Plant, Motor Control Center Replacements - Amendment
(Approval)

Mr. Parsons stated the project includes the replacement and relocation of five motor control centers (MCCs) for the wastewater treatment plant that have reached the end of their useful life and are all highly corroded due to the corrosive nature of the local environment. LCA desires to relocate the five (5) existing MCCs outside to a power zone house, anticipated to be a pre-engineered structure that is identical in nature to the one used to replace MCCs 1 and 1A. He noted that the only exception to the existing MCC is that the proposed unit will be stainless steel due the locally corrosive atmosphere and the proposed MCC may not be identical in size to the existing MCC based on the design. Mr. Parsons noted CDM Smith Inc. based their design proposal on a Preliminary Design report prepared by CMX, Inc. for the City of Allentown. Subsequent investigations by CDM during the design process has found that the CMX report was not exhaustive; therefore, CDM will provide additional design services to include removal and replacement of existing conduits for a negotiated fee of \$12,000. The CMX report also indicated that the roof was capable of handling the loads of the proposed stainless steel MCC housing unit, but further

structural analysis of the roof by CDM has indicated that small-scale structural reinforcements of the concrete cross-members are required, and their fee to design these changes is \$16,500. Mr. Parsons was employed by the City when the CMX report was completed and did add that the City had required a very limited scope to their work that may not have allowed for the detail that CDM performed. Some discussion followed.

On a motion from Mr. Muller, seconded by Mr. Nagle, the Board unanimously approved the Capital Project Authorization Amendment for Allentown Wastewater Treatment Plant Motor Control Center Replacements Design Phase in the amount of \$32,500, which includes a Professional Services Authorization Amendment for CDM Smith, Inc. for \$28,500 (6-0).

Approval for Development of Test and Chemical Grouting Bid Documents for the WLI (Approval)

Ms. Mandes referred to the previously distributed memorandum, explaining that based on the EPA Compliance Order and the PA-DEP Chapter 94 requirements, LCA and the LCA Signatories are required to reduce infiltration and inflow from the system and eliminate SSOs from the LCA and Signatory sewer systems within a five year period (2014). She reminded members that the SCARP Program has been developed to investigate the sources of I & I and to remediate areas identified as having excessive I & I.

Ms. Mandes explained the Physical Condition Assessment (PCA) of the Western Lehigh Interceptor System (WLI) has been ongoing, consisting of various techniques for identifying sources of I & I and follow-up actions. The findings of the 2011 and 2012 PCA indicate that the WLI pipe is structurally sound but the joints leak during periods when the ground water levels are high. This has been further confirmed through a demonstration of the Electro Scan technology. The results of the scan indicated that nearly every joint leaked, some greater than others. Ms. Mandes stated this project is an amendment to the current Arcadis authorization for the WLI Infiltration and Inflow Project. The work covered by this amendment comprises rehabilitation work including testing and chemical grout sealing of 44,256 LF of pipe, close circuit television (CCTV) with Testing and Chemical Grout Sealing (T & S) of 24,139' of pipe adjacent to 20 WLI manholes, cleaning sections of pipe that have been found to have heavy debris, and five point repairs. The recommendation to rehabilitate the leaking joints by a T & S is based on the results of the CCTV work and further confirmation of the leaking joints by the Electro Scan. This is a very cost effective defense against infiltration of groundwater compared to other rehabilitation technologies. Discussion followed.

On a motion from Mr. Bohner, seconded by Mr. Nagle, the Board unanimously approved the Professional Services Authorization Amendment for Arcadis, Inc. in the amount of \$103,000 (6-0).

Allentown Division – Sanitary Sewer Evaluation Study (SSES) Construction Phase (Approval)

Mr. Leist introduced Phil DePoe, PE, a relatively recent new Authority employee, and noted that he was the engineer working on this project. He then referred to the memorandum, explaining the project involves field investigatory work to identify sources of inflow and infiltration (I/I) in the City's sanitary sewer system located in the Primary and Secondary basins as identified in a Whitman, Requardt & Associates (WR&A) Report dated January 2013. The work will include CCTV inspection of approximately 102,000 linear feet of sanitary sewer mains ranging in size from 8 to 36 inches in diameter. The work will include the inspection of approximately 550 manholes and sewer piping point repairs, joint repairs, smoke testing, and heavy cleaning. Upon completion of the SSES work, WR&A will summarize the findings and conclusions of the review in a technical memorandum. Mr. Leist noted that this project is identified as Administrative Order/Un-Completed Work and will be funded by the City of Allentown per the Lease Agreement. He stated that only two of the eight bidders that received the bid documents responded, and Video Pipe Services, Inc. was the lowest bidder. They have completed pipe cleaning, pipe inspection, joint grouting and trenchless spot repairs for Allentown and surrounding areas for over 15-years; therefore, the Authority recommends awarding the General Construction Contract to Video Pipe Services, Inc. subject to the receipt of the necessary bonds, Insurance and other required documentation.

On a motion from Mr. Muller, seconded by Mr. Stellar, the Board unanimously approved the Capital Project Authorization Amendment for the Construction Phase of the Allentown Division SSES Work in the amount of \$844,337 which includes a Professional Services Authorization for Whitman, Requardt and Associates, LLP for \$54,930 and Contract Award to Video Pipe Services, Inc in the amount of \$654,407 (6-0).

Mr. DePoe left the meeting at 1:20 p.m.

Joyce Marin and Michelle Diaz of Renew Lehigh Valley entered the meeting at 1:23 p.m.

SYSTEM OPERATIONS OVERVIEW

Mr. Kerchusky stated that there were many power outages at Kline's Island Wastewater Treatment Plant during the storm events in the prior week and a tree fell on one of the power lines, contributing to the outages. Some discussion followed.

STAFF COMMENTS

Automated Meter Reading (AMR) Project – Allentown Division

Mr. Arndt stated the AMR project in the City Division is mostly closed out. He reminded members the project was performed by iTron, Inc. and the Authority authorized a change order to finish out the project that the City had started. He noted there was a dispute of some charges throughout the contract and iTron was requesting more funds; however, the Authority settled with iTron to pay less than the disputed amount.

Electricity Analysis and Purchase

Mr. Bielarski informed the Board that our current electric contracts will be expiring in early 2015; therefore, the Authority's Purchasing Manager (John Chaya) has been tracking current rates and calculating savings each day for about 30 days. As of today, if we lock in to begin a new contract with Mid-American, the cost savings would be about \$250,000. Extension discussion followed.

Mr. Bielarski stated that the Authority would be taking advantage of this opportunity to contract with a new electric supplier, as there were no objections from Board members.

SOLICITOR'S COMMENTS

None.

OTHER COMMENTS

Mr. Nagle asked for an update on terminations of service.

Ms. Adam stated that this is currently the third billing cycle for terminations, noting there were about 300 terminations this week, but at a much lower dollar threshold than in the past. She stated that 1.5% of bills in the Allentown Division for 2013 remain uncollected.

EXECUTIVE SESSION

The Chairman called for an Executive Session at 2:03 p.m. to discuss legal matters.

Messrs. Muller and Stellar left the meeting during Executive Session at 2:13 p.m. and 2:36 p.m., respectively.

The session ended at 2:50 p.m.

ADJOURNMENT

There being no further business, the Chairman adjourned the meeting at 2:51 p.m.

Richard H. Bohner
Secretary

FINANCE & ADMINISTRATION

ACTION ITEMS

1. **2013 Audit** (Acceptance)

The auditor's report and financial statements for year-end December 31, 2013 is complete. Staff recommends Board acceptance of the report.

DISCUSSION ITEMS

1. *None.*

INFORMATION ITEMS

1. **CMMS Upgrade and Expansion Project**

GIS map identifying both Suburban and Allentown Division distribution and collection system assets has been developed and transmitted to RJN for review. Cityworks software installation and CASSWORKS data conversion is scheduled for June. Pilot phase is scheduled for August – October. Verizon Wireless is willing to provide sample mobile devices, ex. Ipad, Android tablet, for evaluation during the pilot phase.

2. **Recently Purchased Investments – Certificates of Deposit (CDs)**

Fund	Bank	Location	Gross Amount	Date of Purchase	Date Due	Net Rate %
LLRI CR	PSDLAF Collateralized CD		400,000.00	5/6/2014	6/24/2014	0.100
Cons Wtr (2)	PSDLAF Collateralized CD		155,000.00	5/6/2014	6/24/2014	0.100
Cons LL2 (314)	PSDLAF Collateralized CD		245,000.00	5/6/2014	6/24/2014	0.100
WW Capac	PSDLAF Collateralized CD		600,000.00	5/6/2014	6/24/2014	0.100
2010 Wtr Cons A	PSDLAF Flex Pool		3,250,000.00	5/6/2014	6/24/2014	0.100
Wtr R&R	PSDLAF Collateralized CD		1,000,000.00	5/6/2014	6/24/2014	0.100
LLRI CR	Synchrony Bank	Draper, UT	99,000.00	6/4/14	6/6/16	0.650

Fund Descriptions for Investments:

Cons Wtr (2)	Consolidated Water (2)
LLRI CR	Little Lehigh Relief Interceptor Capital Reserves
Cons LL2 (314)	Consolidated Little Lehigh Relief Interceptor 2
WW Capac	Wastewater Capacity
2010 Wtr Cons A	2010 Water Construction, Series A Bond
Wtr R&R	Renewal and Replacement

WATER

ACTION ITEMS

1. **Allentown Division- Water Main Replacement Program Construction Phase for Cycle-1 (Approval)**

The Board authorized the design phase of this project in October 2013 and a Professional Service Authorization was awarded to Gannett Fleming, Inc. The project will replace the required one-mile of main for the first year “cycle 1”. An additional 1,475 LF of water main will be installed outside of this requirement due to installations mainly occurring from intersection to intersection, thus allowing future replacements to be easily extended without interruptions in service to customers in the area. The project was advertised for bid on May 6, 2014. A mandatory pre-bid meeting was held on May 21, 2014 and representatives of 11 contracting firms attended. Bids were received on June 5, 2014. Approval of the Construction Phase is requested at the Board meeting (**gold**).

DISCUSSION ITEMS

1. ***None.***

INFORMATION ITEMS

1. **Arcadia West Pumping Station Modifications**

Layout drawings are being prepared for the station piping and bypass pumping. The booster pumps are scheduled for delivery around the end of June and the high service pump for end of July project after the or early August. Electrical and SCADA tie-ins will be made as the work progresses.

2. **Allentown Division- Schantz Spring Chlorination Issue**

Alternative options in lieu of a CL₂ Booster Station as originally scoped by the City are being fully evaluated based on cost and feasibility. Backup power supply, more reliable chemical feed pumps, and full-time data recording are all being considered in an effort to reduce the potential for unchlorinated slugs of water in the future. Barry Isett Inc. has provided a proposal to determine costs of the alternate plan vs the original booster station. City of Allentown has been agreed with the concept and has been authorized to proceed with the evaluation. The contract with Barry Isett is currently being finalized. This Project is identified as Un-Completed Work and will be funded by the City.

3. **Allentown Division- WFP Chemical Building Roof Replacement**

The Project includes modifications to the roof of WFP chemical storage area (i.e. installation of hatches), removal and replacement of (2) 8,000 gallon chemical storage tanks; and replacement of the 20-year old rubber membrane roof system. The project has been bid by the City and a contract has been awarded. The replacement chemical feed tanks have been fabricated and are being stored by the vendor until we are ready for them. Construction has been underway since 3/31/2014. Water pipes, sprinklers, storm drains, etc. were moved first. Steel and other construction materials started arriving on May 19, 2014. Dismantling of the existing roof began on May 19, 2014. Both

replacement sodium hypochlorite tanks were delivered and are set in-place. Replacement tank #1 was certified for use by PaDEP on 6/5/2014, and is currently on-line. Replacement tank #2 is scheduled to be certified on 6/20/2014 and will then be put on-line. All four new hatches are now in place. The new membrane roof is being installed but construction has been hampered by wet weather. The anticipated completion date for the project has been revised to July 7, 2014. This Project is identified as Un-Completed Work and will be funded by the City.

5. Developments

Water system construction is occurring in the following developments:

Valley West Estates, Phases 4, 5 & 6, 46 residential lots (sfd), UMT

Water system plans are being reviewed for the following developments:

Above & Beyond (personal care facility), 2 commercial lots, UMT

Diocesan Pastoral Center, 2 commercial lots, 3 additional lots and residual lot for existing cemetery, LMT

Grant Street Townes, 18 residential lots (sfa), WashT

Hamilton Crossings, 2 commercial lots with 20 buildings having retail, financial, convenience and restaurant uses, LMT

Hickory Park Estates, 3 residential lots (sfd), UMT

Hillview Farms, 31 residential lots (sfd), LMT/SWT

Indian Creek Industrial Park, 6 commercial lots, UMIIT, water and sewer

Lehigh Hills, 247 residential lots (sfa/sfd), UMT

Lehigh Hills, Lot 4, 1 commercial building, UMT

Liberty at Mill Creek, 2 industrial lots, UMT

Morgan Hills, 40 residential lots (sfd), WeisT, water and sewer

North Whitehall Commercial Center (Walmart), 5 commercial lots, NWT, water and sewer

Route 100 Bypass & Cetronia Road Proposed Commercial Development, 1 commercial lot with 4 buildings having auto, convenience, financial and day care uses, UMT

Shepherd's Corner, 1 commercial lot, LMT

Spring Creek Properties Settlement Subdivision (formerly Spring Creek Properties Subdivision I), 16 commercial and industrial lots, LMT

Trexler Business Center, Lot 1, 1 commercial building, LMT

Weilers Road Twins, 82 residential lots (sfa), UMT

West Park, Lot 8, 1 industrial building, UMT

Woodmere Estates, 60 residential units (sfd), UMT

Woodmont at Upper Macungie (formerly Rabenold Farms II), 288 apartment units and clubhouse, (Portion north of I-78), UMT

WASTEWATER

ACTION ITEMS

1. **Wynnewood Terrace Pump Station & Force Main Replacement**

The project includes the design and construction to replace the existing wastewater pumping station and approximately 3,000 feet of 4-inch force main, which serves 217 residential and 2 commercial customers in the Wynnewood Terrace Development. New facilities will include a 300 gallon per minute, duplex pump station and approximately 3,000 feet of 6-inch HDPE force main. The project cost is estimated at \$1,000,000. Design work is complete and DEP has granted the permit. Staff has initiated an application to PENNVEST for construction funding. However, due to the timeframe for receiving the NPDES Permit, we will postpone our application until the August PENNVEST due date. A “Letter of No Prejudice” will be solicited, due to Sanitary Sewer Overflows in 2014, so that bidding can start in July and construction in August. Board action on the attached Resolution 6-2014-1 is requested in order for the Authority to ultimately reimburse itself from loan proceeds for pre-loan closing project expenditures (*green*).

DISCUSSION ITEMS

1. ***None.***

INFORMATION ITEMS

1. **Infiltration and Inflow (I&I) Program Update**

The following is work planned for 2014:

- Submission of reports to EPA and DEP.
- Rehab effectiveness metering in Phase 1 pipe lining project areas to determine the reduction in peak flows as a result of the rehab work.
- Phase 2 of Signatory pipe lining projects as determined by KCE.
- Rehab effectiveness metering in Phase 2 pipe lining project areas.
- WLI Manhole Inspections. This work is near completion.
- Test and Seal project for branches of the WLI that were CCTVed in 2011 – 2012.
- Long term flow meters will continue on a limited basis. Two rain gauges and meters remain in the system.
- Alternative Modeling and feasibility analysis to evaluate the various alternatives to achieve the preliminary objectives. The alternatives will include various combinations of I & I elimination, storage and capacity increases.
- Preliminary Program Objectives Evaluation Report will be submitted to DEP by the end of 2014. This document will define the current system performance and assess what it will take to achieve the system preliminary objectives. The report will include a discussion of the investigation and evaluation work completed including flow evaluation, SSES prioritization, modeling, current and future level of service, current and future system sizing requirements, and will propose the Level of Control for system operation.

- The development of the Capital Improvements Plan is scheduled to begin by the end of the year. This will identify the rehab needs, replacement needs, expansion requirements, costs of improvements and schedule for implementation to achieve the program objectives.
- The City and LCA hydraulic models have been combined by Arcadis. A meeting was held with City representatives and the City Engineer and LCA representatives and our Engineer to discuss the combined model and to determine if additional flow monitoring is required to calibrate the models. Ten meters are being installed near the park Pump Station to collect flow data for three to four months. The flow data will help the two models work together. A proposal has been requested for updating the calibration with the new flow data.
- The LCA will be requesting an extension for the EPA Administration Order (AO) completion date before the end of the year. The AO issued in September 2009 stated "Respondents shall eliminate the discharges from the SSOs in the System no later than December 31, 2014." A meeting was held with the City and City Signatories to determine if there is an interest in making a joint request to EPA. Two of the Signatories attending the meeting were not sure if they wish to be included in a joint effort. They requested a draft of the letter that would be presented to their governing body for discussion. The draft letter has been distributed to the Signatories. We should know by the end of the month which Signatories will be participating in the joint request.

2. Wastewater Treatment Capacity

The Memo of Understanding (MOU) regarding working together on a joint Act 537 Plan with the City was never executed with the City. The MOU was revised as a result of the Concession. The City revised the MOU and returned to LCA. We are in the process of continued negotiations.

A Stakeholder's Advisory Committee (SAC) Meeting will be scheduled for summer 2014.

DEP has indicated that a Jordan Creek study must be submitted to DEP prior to the issuance of final effluent standards. If we want to avoid the study, then water quality standards would be imposed for effluent limitations. There is no work currently being done on the Jordan Creek discharge option.

A meeting was held with the DRBC to discuss updating the prospective effluent limits for the various alternatives. The model was refined and the grandfathered loads for Phosphorus and Ammonia have been updated based on the actual Kline's Island data. The new effluent limits have been developed and provided by the DRBC. The Engineering team held a meeting to discuss the revised effluent limits provided by the DRBC. A follow-up letter is being provided to the DRBC requesting back-up documentation and sources of data.

A meeting was held at the Pretreatment Plant with the DEP to discuss the land application option. Four individuals from DEP toured the area to see the various sites that are being investigated for land application of the plant effluent. DEP is still excited about this option but did present the requirement for total dissolved solids (TDS) which will be one of the challenges.

Effluent sampling was performed on the Pretreatment Plant effluent to determine the make-up of the TDS. The high TDS in the effluent will require a reverse osmosis process to treat the TDS to acceptable levels. The major industries and waste haulers discharges were sampled to determine where the sources of the high plant TDS is coming from. The results of the analyses are currently being evaluated. The high TDS concentrations will present a challenge for the for the land application option as additional acreage will be needed to dilute the TDS.

The City has provided future population projections to be utilized in the hydraulic model. The model is currently being utilized to evaluate wastewater capacity in the WLI so that conveyance costs can be updated for each of the 4 mgd options.

3. **Northern Lehigh Wastewater System**

The project is composed of the following:

Wastewater Treatment Plant (on a 5-acre tract at KidsPeace)

The North Whitehall Township (NWT) Board of Supervisors granted approval of the Conditional Use for the proposed WWTP. In late November 2012 the opposition, the Voice of the Jordan (Voice), appealed the NWT decision to Lehigh County Court of Common Pleas. On June 5, 2013 the Court ordered “that the decision of the NWT Board of Supervisors dated October 23, 2012 is hereby reaffirmed”. On July 29, 2013 the Voice filed an appeal of the previous Court ruling to Commonwealth Court. Arguments in Harrisburg took place on December 11, 2013, a decision rendered by the Court on January 9, 2014 affirmed the lower Courts decision and Township approval. The Voice has filed a Petition with the Pennsylvania Supreme Court to hear the case. We are evaluating the timing of any legal action to request that the Court require the Voice to post a bond. **No Current Activity**

The total cost of the WTP including soft costs and KidsPeace acquisition costs is estimated at \$4.69 million.

Wal-Mart

Wal-Mart has put the proposed store on-hold indefinitely. Wal-Mart was a key financial contributor to the offsite conveyance facilities, which includes gravity sewers, a pump station and force main to deliver the wastewater from their proposed development and other future wastewater customers to the proposed wastewater treatment facilities at the Kids Peace site. Cost-sharing negotiations are on hold. **No Current Activity.**

KidsPeace Agreement

A revised amendment to the Agreement has been sent to KidsPeace. It primarily focuses the financial impact on the Jordan Creek Wastewater system because of KidsPeace’s sale of the 101 Acre parcel to Lehigh Carbon-Community College (LCCC). The 101 Acre parcel was an integral economic component for LCA in the 2006 Agreement. Since that revised amendment submittal, KidsPeace has filed for Chapter 11 Bankruptcy. We have retained an attorney who specializes in bankruptcy, Jack Seitz, to represent LCA in this matter. LCA has agreed not to contest the motion filed by the KidsPeace with the bankruptcy court that allows KidsPeace to retain the Acquisition Agreement after the bankruptcy proceedings.

Act 537 Plan (Plan) Revision

NWT continues to work on developing an alternate a solution for the wastewater treatment needs for a revised 1-5 year service area which would include a WTP located on the eastside of Route 309 that would discharge to the Coplay Creek. LCA met with NWT on November 21, 2013 to discuss the status of their efforts. NWT has requested that LCA work their engineer to obtain the information necessary to secure conceptual pricing for the WTP and to develop high level capital and operating cost estimates. **No Current Activity.**

4. **Arcadia West WWTP Improvements**

Construction is complete at the site. Facility operation has significantly improved through May, although not at full functionality. The Equipment Supplier will be meeting with our Operational Staff to review performance in June. The project is still within budget.

5. **Park Pump Station Improvements**

Fuel Tank Replacement – Staff has reviewed specifications and plans for replacement of the fuel tank at the Park Pump Station. We expect to place the work to bid in July.

6. **LCA WTP**

Digester Mixer Replacements:

The General contractor has completed the installation of mixers in the first two digesters. Transfer of the contents and cleaning of the 3rd and final digester is anticipated to be complete by June 13, 2014. To prepare for the installation of these mixers holes have been cut in the top of the digester and concrete installation curbs have been poured, both necessary to accommodate the new mixers. We expect the project will be completed by the August 2014.

PPL E-Power Customizable Energy Program:

PPL has accepted the E-power applications for energy savings rebates and verification methodologies for both the Digester Mixer Replacements and Truck Waste Receiving Station (TWRS). Monitoring of the electric usage of the remaining old mixers has been completed. Monitoring devices on the High Purity Oxygen system have been installed with monitoring extending to the end of June 2014.

7. **Allentown Division - WWTP-New Bar Rack at Headworks**

The Project includes the replacement of the existing screen equipment with new coarse bar screens to minimize potential for jamming or mechanical malfunctions experienced by the existing screening equipment, resulting in discharges from Outfall 003 during high flow events. The project has been bid by the City and a contract in the amount of \$737,000 has been awarded to Blooming Glen Contractors. Given the long lead time for the equipment, we expect the bulk of the work to start in mid June 2014. The City released the check for procurement of the screens on June 5, 2014. This Project is identified as Administrative Order / Un-Completed Work and will be funded by the City.

9. **Allentown Division - WWTP-Replacement of Motor Control Centers**

This Project will replace five aged motor control centers that provide power on a 24/7 basis to various parts of the WWTP. The motor control centers are located in areas where they are exposed to corrosive wastewater gas and have deteriorated considerably. Because of the age of the existing MCCs, replacement parts are nearly impossible to find. This equipment is critical for the daily operation of the WWTP. The design of the electrical upgrade has been awarded to CDM and kickoff meeting for project was held 2-12-14. Design is currently in-progress. A contract amendment with CDM has been approved and it will allow for additional design services that were not part of the original specifications. Currently, the CDM projected construction schedule has the MCC fully installed and operational by July 2015.

10. **Allentown Division - WWTP-Other Work**

PPL Combined Heat & Power (CH&P) Facility:

The Combined Heat and Power (CH&P) facility at the Kline's Island WWTP which was constructed through Addendum No.3 to Energy Services Master Agreement between the City and PPL Energy Plus began limited basis firing of digester gas on April 21, 2014. PPL is in the process of shake down for all of the components that makeup the facility. The production of electricity will slowly be increased as all of the bugs are worked out of the facility.

11. **Lynn Township – WWTP Improvements, Phases 1 & 2**

Gannett Fleming visited the plant on May 15th as part of their design effort. As a result of their visit, and on-going interaction on several design concepts, a revised scope of work will be developed and presented for LCA approval. Among the proposed changes will be to defer installation of UV light and continue to use chlorine to disinfect the waste discharge to the creek. A revised Water Quality Management (WQM) Part II permit package will be submitted to DEP for approval and the specifications finalized for bidding the work. Application will be made for PennVEST funding after permits have been acquired. It appears that replacing the RAS pumps and blowers will be performed in-house. We learned that township adoption of a 55+ active adult community overlay district is still in the approval process. The impact this district will have on the timing to upgrade the 80,000 GPD plant to 160,000 GPD (Phase 3) will need to be investigated with the affected property owners.

12. **Allentown Division – Manhole Collars with Water Tight Frame and Covers**

This project involves, where applicable, installing a 5-foot diameter, three to four foot deep concrete collar around 100 aged brick manholes identified by previous City staff. This technique will be used to secure a new water tight frame and cover onto the manhole. Where vehicular accesses to the manholes are problematic, alternative solutions will be investigated to secure new water tight frame and covers. This work will eliminate the potential for inflow and infiltration (I/I) entering these manholes, this eliminating the potential for sanitary sewer overflows (SSO's) from these manholes. The City has directed LCA to bring the project to a bid ready stage, but not to bid unless authorized to do so by the City. A RFP was issued and proposals were received on March 26, 2014 for engineering consulting services. The proposals are currently under evaluation and a selection of an engineering consultant is forthcoming. The project is anticipated to be bid ready by the end of August 2014. The project is identified as Administrative Order and will be funded by the City.

13. **Allentown Division – Sanitary Sewer Manhole Lining**

This project will install a lining system in 47 aged brick manholes identified by previous City staff. This lining system will eliminate infiltration and will provide additional structural reinforcement to the manholes. The City has directed LCA to bring the project to a bid ready stage, but not to bid unless authorized to do so by the City. A RFP was issued for engineering consulting services and proposals were received. A professional service agreement was approved administratively with Barry Isett & Associates (BIA) on April 4, 2014. BIA inspected all 47 manholes via a video camera and these DVD's are currently under LCA review. The project is anticipated to be bid ready by the end of August 2014. The project is identified as Administrative Order Work and will be funded by the City.

14. **Allentown Division – Belt Filter Presses**

The wastewater treatment plant has three belt filter presses that are used to dewater both wastewater sludge and water plant chemical sludge. This project will install a remanufactured belt press for existing BFP #1, and will rehabilitate in-place existing BFP #2 and #3. Units #1 and #2 will also get a new control cabinet. Board approval has already been received to purchase of; the remanufactured unit for BFP #1, OEM parts for BFP #2 and #3 and also for D'Huy Engineering to design the construction work for the entire project. Construction specifications are to be completed by the end of June, 2014. The project is planned for completion by the end of 2014 and will be funded by LCA.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

YEARS ENDED DECEMBER 31, 2013 AND 2012

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

For the Years Ended December 31, 2013 AND 2012

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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, 2013 and 2012, 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

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 the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 risk 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.

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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, 2013 and 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of GASB Statements

As discussed in Note 1 to the financial statements, in 2013 Lehigh County Authority adopted the provisions of Governmental Accounting Standard Board's Statement No. 61, "*The Financial Reporting Entity: Omnibus – and amendment of GASB Statement No. 14 and No. 34*", GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*", and GASB Statement No. 66, "*Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*".

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 schedules of funding progress for pension plans, and schedule of funding progress and employer contributions for post employment benefits other than pensions on pages 51 through 53 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 are 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 for the year ended December 31, 2013 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 for the year ended December 31, 2013 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
April 30, 2014



LEHIGH COUNTY AUTHORITY

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INTRODUCTION

Lehigh County Authority is pleased to present its Annual Financial Report for the year ended December 31, 2013. 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.

Information in this MDA is presented under the following headings:

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

MANAGEMENTS DISCUSSION AND ANALYSIS

Authority Activities and Highlights

On August 7, 2013, 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.

Subsequent to the acquisition, the Authority operated the former City of Allentown System as a separate division and fund, with its own bond indenture, trustee, revenues and expenses. The former City of Allentown System is now the Authority's City Division and the pre-existing Authority System are now the Suburban Division.

City Division

For the partial period of August 8, 2013 through December 31, 2013, the City Division generated \$14,167,334 in operating revenues, surpassing the budget of \$12,993,303 by 9.04%. Operating expenses, net of depreciation and amortization were \$5,090,402, \$1,227,889 below the budget of \$6,318,291, or 19.43% below budget. Operating Income, net of depreciation and amortization was \$9,076,932, \$2,401,920 ahead of the 2013 budget, or 35.98% above budget. The City Division's Annual Debt Service Coverage Ratio for the partial period of operations was 2.20, compared to the indenture requirement of 1.20.

Suburban Division

Operating Revenue for 2013 for the Suburban Division was \$23,652,690, \$838,839 ahead of the last year's performance of \$22,813,851, or 3.68%. The Suburban Division's Water Fund contributed \$7,618,998 in revenue, while the Wastewater Fund added another \$16,033,692. The Water Fund was \$477,906, or 6.69% ahead of the previous year, and the Wastewater Fund was \$360,933 ahead of 2012, or 2.30%.

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>2013</u>	<u>2012</u>	<u>2011</u>
Water System # of Units Connected:			
Single Family Detached	108	72	74
Single Family Attached (Townhouses)	153	115	118
Apartments and Mobile Homes	1	2	186
Commercial	<u>9</u>	<u>6</u>	<u>7</u>
Total Water System Connections	<u>271</u>	<u>195</u>	<u>385</u>
Wastewater Capacity Sales in Gallons:			
Residential	52,316	86,705	48,934
Commercial	<u>114,695</u>	<u>17,864</u>	<u>945</u>
Total Sales	<u>167,011</u>	<u>104,569</u>	<u>49,879</u>

The table reflects an upward trend in new Water System connections for both detached and attached single family homes. The increase in wastewater capacity is driven by Ocean Spray's purchase of an additional 100,000 gallons of capacity for its juice packaging plant in the Authority's Service area. Production began in early 2014 and the customer continues to project up to 1 million gallons per day of water usage and up to 300,000 gpd of wastewater discharge once full production is achieved.

The Suburban Water System continues to purchase 4 million gallons a day from the interconnection with its City Division. The purchase obligation will grow to 7 mgd by 2016. 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 147% as compared to 150% and 132% in 2012 and 2011, respectively. The past two year's coverage are well above the 110% required by the Suburban Water Bond Indenture.

Overview of the Financial Statements

Lehigh County Authority's basic financial statements include statements of net position, statements of activities 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 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.

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.

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 a proprietary fund. 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 progress in funding its 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, 2013 is presented as follows:

Current Assets, Unrestricted	\$ 14,580,588
Non-current Assets:	
Restricted	70,598,248
Capital Assets, Net	1,534,162
Other Assets, Net	<u>243,743,766</u>
Total Assets	\$ 330,456,764
Current Liabilities	\$ 1,849,045
Non-current Liabilities	<u>335,064,266</u>
Total Liabilities	\$ 336,913,311
Net Position:	
Net Investment in Capital Assets	\$ 196,938
Unrestricted	<u>(6,653,485)</u>
Total Net Position	\$ <u>(6,456,547)</u>

The acquisition of the City of Allentown's Water and Sewer Systems was accounted for in accordance with GASB No. 60, "Accounting and Financial Reporting for Service Concession Arrangements". As such, the Authority had the following assets and liabilities at December 31, 2013:

- The leased Concession assets are recorded in Other Assets in the amount of \$243,743,766.
- The purchased rolling stock and other fleet of vehicles are recorded in Capital Assets (net) in the amount of \$1,534,162.
- The 2013 Series Concession Bonds and the net present value of the future Concession obligations, such as the annual city payment and the future funding of capital reserves are recorded in noncurrent liabilities in the amount of \$335,002,198.
- Cash in bank accounts and within the Trustee reserve accounts are recorded as either restricted or unrestricted assets.

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>2013</u>	<u>2012</u>	<u>2011</u>
Current assets, unrestricted	\$ 27,281,760	\$ 26,390,847	\$ 25,145,061
Non-current Assets:			
Restricted	8,784,587	9,094,429	12,197,411
Capital assets, net	189,478,636	187,727,094	181,816,603
Other assets, net	4,589,503	5,274,108	4,474,932
Deferred Refunding Loss on Bonds	<u>657,563</u>	<u>751,501</u>	<u>855,394</u>
Total Assets & Deferred Outflows	<u>\$230,792,049</u>	<u>\$ 229,237,979</u>	<u>\$ 224,489,401</u>
Current liabilities	\$ 5,057,293	\$ 3,734,310	\$ 7,092,143

Non-current liabilities	<u>42,949,876</u>	<u>42,951,592</u>	<u>42,711,090</u>
Total Liabilities	<u>\$ 48,007,169</u>	<u>\$ 46,685,902</u>	<u>\$ 49,803,233</u>
Net position:			
Net Investment in Capital Assets	\$ 151,872,720	\$ 150,965,827	\$ 148,488,162
Restricted	1,207,927	1,733,035	1,744,341
Unrestricted	<u>29,704,233</u>	<u>29,853,215</u>	<u>24,453,665</u>
Total Net Position (As Restated)	<u>\$ 182,784,880</u>	<u>\$ 182,552,077</u>	<u>\$ 174,686,168</u>

In accordance with GASB No. 65, entitled "Items Previously Reported as Assets and Liabilities", previous years amounts were restated for bond issuance costs, and reclassified for a loss on the refunding of certain bonds, as a Refunding Loss. The adjustments were made for each year presented.

In regard to the remainder of the Statement of Net Position, there was little material movement from 2012 to 2013. An increase in new customer revenues, additional tapping and capital recovery fees, and developer contributions (more fully described in Note 14 to the financial statements), combined with decreased operational, and interest expenses resulted in an increase in net position in 2012 as compared to 2011.

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 partial year ended December 31, 2013 is presented as follows:

Operating Revenues:

User Charges	\$ 14,077,962
Other Income & Rent	<u>89,372</u>
Total Operating Revenues	<u>14,167,334</u>

Operating Expenses:

Salaries & Administrative	3,194,367
Utilities, Supplies & Services	1,896,035
Treatment & Transportation	-
Depreciation & Amortization	<u>2,616,422</u>
Total Operating Expenses	<u>7,706,824</u>
Operating Income	<u>6,460,510</u>

Non-Operating Revenues (Expenses):

Tapping & Capital Recovery Fees	\$ 12,050
Meter Sales	1,624
Inspection & Plan Reviews	2,600
Interest Earnings	3,497
Other Income	246,131
Interest Expense	(7,101,736)
Other Expense	<u>(6,081,223)</u>
Total Net Non-Operating Revenues (Expenses)	<u>\$(12,917,057)</u>
Increase (Decrease) in Net Position	<u>\$ (6,456,547)</u>

The Statement of Revenue, Expenses and Changes in Net Position reflect the Authority's activities as the Concessionaire for the period from August 8, 2013 through December 31, 2013. The overall decrease in the City Division's Net Position was primarily caused by expensing non-operating expenses incurred in securing the Concession (e.g. transaction costs) and other one-time costs not related to the operations of the Concession System (e.g. transition costs). The practice of expensing these costs in the year of expenditure is a change from the Authority's past treatment of amortizing these costs over a period of 5 to 7 years and was necessitated by a new GASB pronouncement.

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>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues:			
User Charges	\$ 23,452,943	\$ 22,457,011	\$20,729,213
Other Income & Rent	<u>199,747</u>	<u>356,840</u>	<u>383,980</u>
Total Operating Revenues	<u>23,652,690</u>	<u>22,813,851</u>	<u>21,113,193</u>
Operating Expenses:			
Salaries & Administrative	2,412,829	2,597,437	2,587,144
Utilities, Supplies & Services	7,838,641	7,571,403	7,029,134
Treatment & Transportation	7,128,163	5,539,924	6,238,733
Depreciation & Amortization	<u>6,491,751</u>	<u>6,487,225</u>	<u>6,637,936</u>
Total Operating Expenses	<u>23,871,384</u>	<u>22,195,989</u>	<u>22,492,947</u>
Non-Operating Revenues (Expenses):			
Tapping & Capital Recovery Fees	\$ 1,096,173	\$ 2,015,532	\$ 260,116
Meter Sales	105,361	101,659	95,160
Inspection & Plan Reviews	127,444	75,652	73,894
Interest Earnings	154,656	189,967	207,252
Other Income	303,407	327,143	298,354
Interest Expense	(1,542,144)	(1,550,313)	(1,630,259)
Other Expense	<u>(667,559)</u>	<u>(651,864)</u>	<u>(629,840)</u>
Total Net Non-Operating Revenues (Expenses)	<u>\$ (422,662)</u>	<u>\$ 507,776</u>	<u>\$ (1,325,323)</u>
Increase (Decrease) in Net Position before Capital Contributions	<u>\$ (641,356)</u>	<u>1,125,638</u>	<u>(2,705,077)</u>
Capital Contributions:			
Grants	145,500	1,040,958	1,773,491
Capital Assets Provided by Developers & Other	<u>728,659</u>	<u>5,699,313</u>	<u>631,248</u>
Total Capital contributions	<u>874,159</u>	<u>6,740,271</u>	<u>2,404,739</u>
Increase (Decrease) in Net Position	<u>\$ 232,803</u>	<u>\$ 7,865,909</u>	<u>\$ (300,338)</u>

In 2013, new customer revenues were marginalized by higher treatment and transportation costs and lower tapping and capital recovery fees (more fully described in Note 13 of the financial statements). The combination resulted in a small increase in the Authority's Net Position. An increase in new customer revenues, additional tapping and capital recovery fees and developer combined with decreased operational and interest expenses resulted in an increase in Net Position in 2012.

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, 2013

	<u>Beginning Balance</u>	<u>Increased / (Decreased)</u>	<u>Ending Balance</u>
Net Investment in Capital Assets	\$ 150,965,827	\$ 906,893	\$151,872,720
Restricted Net Position	1,733,035	(525,108)	1,207,927
Unrestricted Net Position	<u>29,853,215</u>	<u>(148,982)</u>	<u>29,704,233</u>
Total Net Position	<u>\$ 182,552,077</u>	<u>\$ 232,803</u>	<u>\$182,784,880</u>

Other Selected Information:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Equivalent Fulltime Employees at Year-End	141	37	40

Units Served:

Suburban Division:

Water - Residential	19,916	19,667	19,488
Water - Industrial & Commercial	<u>649</u>	<u>683</u>	<u>677</u>
Total Water Billable Units	20,565	20,350	20,165
Wastewater Collection – Residential	2,532	2,495	1,853
Wastewater Collection – Commercial	<u>119</u>	<u>110</u>	<u>79</u>
Total Wastewater Billable Units	2,651	2,605	1,932

City Division:

Water:			
Water - Residential	41,594		
Water - Industrial & Commercial	<u>5,055</u>		
Total Water Billable Units	46,649		
Wastewater:			
Wastewater - Residential	41,474		
Wastewater - Commercial	<u>5,014</u>		
Total Wastewater Billable Units	46,588		

Customers:

Suburban Division:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Water – Residential	18,470	19,667	19,488
Water – Industrial & Commercial	<u>649</u>	<u>683</u>	<u>677</u>
Total Water Customers	19,119	20,350	20,165
Wastewater Collection – Residential	2,175	2,495	1,853

Wastewater Collection – Commercial	<u>115</u>	<u>110</u>	<u>79</u>
Total Wastewater Customers	2,290	2,605	1,932
City Division:			
Water – Residential	30,288		
Water – Industrial & Commercial	<u>3,025</u>		
Total Water Customers	33,313		
Wastewater Collection – Residential	30,268		
Wastewater Collection – Commercial	<u>3,015</u>		
Total Wastewater Customers	33,283		

Ratios

Suburban Division:

Ratio of Operating Revenue to:

Operating Expenses, Net of Depreciation & Amortization	1.36	1.45	1.33
Total Assets	.103	.100	.094
Total Net Position	.129	.125	.121

Debt Related Ratios:

Net Position to Long-Term Debt	4.37	4.31	4.43
Current Ratio (Current Assets/Current Liabilities)	5.39	7.07	3.55
Water Fund Debt Service Coverage	1.47	1.50	1.32

City Division:

Ratio of Operating Revenue to:

Operating Expenses, Net of Depreciation & Amortization	2.78		
Total Assets (Annualized)	.103		
Total Net Position	N/A		

Debt Related Ratios:

Net Position to Long-Term Debt	N/A		
Current Ratio (Current Assets/Current Liabilities)	7.89		
Water Fund Debt Service Coverage	2.20		

Capital Contributions

During 2012 the Authority received \$145,500 in grants related to construction of a sewer project. This compares to \$1,040,958 and \$1,773,491 received in 2012 and 2011 respectively. The other major source of capital contributions is derived from developer installed Systems donated to the Authority.

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 was \$243,743,766 in an intangible asset service lease concession, and \$1,543,643 in rolling stock and vehicles. 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 \$1,751,542. This increase can be attributed to completion of several significant capital projects in 2013 offset by an increase in accumulated depreciation. More detail on the Authority's capital assets can be found in Note 5 to the financial statements.

Debt Administration:

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.

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, in April 2013, the Authority adopted a 3.7% water rate increase as a follow-up to the increase in 2012. This action was necessitated by the low to moderate growth in the System and the resultant erosion of the debt service coverage. Even with these rate increases the Authority’s rates are 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. On January 1, 2013, the Authority imposed a 5% increase.

While the housing market continues to recover, the Authority anticipates minimal growth will occur in 2014. The major highlight on the horizon is the Ocean Spray packaging plant going into commercial operation and the continued growth in the Authority’s industrial base.

City Division:

From the City Division perspective, the Authority anticipated almost zero growth in the rate base of the City. The Authority also agreed to a moratorium on service charges increases until January, 2016. As a result, projects like the Minor League Hockey Arena and the NIZ Development Zone, Waterfront Development and other construction in the City of Allentown enhance the Authority’s financial picture.

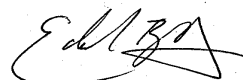
Contacting the Authority’s Financial Management:

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 Bielarski Jr, the Lehigh County Authority’s Chief Financial Officer, P.O. Box 3348, Allentown, PA 18106.

Submitted by,



Aurel M. Arndt
Chief Executive Officer



Edward Bielarski
Chief Financial Officer

LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA

STATEMENTS OF NET POSITION
December 31, 2013 AND 2012

- ASSETS -

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund	Total	
	2013	2012	2013	2012	2013	2013	2012
Current Assets:							
Cash and Cash Equivalents (Note 2)	\$ 4,521,655	\$ 3,483,823	\$ 7,993,862	\$ 5,133,451	\$ 6,190,025	\$ 18,705,542	\$ 8,617,274
Certificates of Deposit (Note 2)	3,332,071	4,750,579	5,244,888	8,169,108	-	8,576,959	12,919,687
Accounts Receivable:							
Customers	1,285,854	1,226,730	2,933,852	2,680,148	5,508,882	9,728,588	3,906,878
Financing Contracts (Note 4)	-	-	399,121	391,267	-	399,121	391,267
Others	166,715	135,072	155,935	66,866	3,627,378	3,950,028	201,938
Due from (to) Other Funds (Note 9)	2,391,874	1,259,799	(1,396,400)	(1,259,799)	(995,474)	-	-
Inventory	40,264	59,173	-	-	-	40,264	59,173
Accrued Interest Receivable	4,086	6,452	6,730	20,449	655	11,471	26,901
Prepaid Expenses	130,775	153,609	70,478	114,120	249,122	450,375	267,729
Total Current Assets	11,873,294	11,075,237	15,408,466	15,315,610	14,580,588	41,862,348	26,390,847
Noncurrent Assets:							
Restricted:							
Cash and Cash Equivalents (Note 2)	1,595,985	815,671	335,978	-	70,598,248	72,530,211	815,671
Certificates of Deposit (Note 2)	3,974,440	5,993,780	-	-	-	3,974,440	5,993,780
Developer Escrow Deposit (Note 3)	2,877,347	2,280,824	-	-	-	2,877,347	2,280,824
Accrued Interest Receivable	837	4,154	-	-	-	837	4,154
Total Restricted Assets	8,448,609	9,094,429	335,978	-	70,598,248	79,382,835	9,094,429
Capital Assets: (Notes 1 and 5)							
Land	1,605,801	1,400,732	1,718,947	1,709,307	-	3,324,748	3,110,039
Wells & Reservoirs	8,468,971	8,319,184	-	-	-	8,468,971	8,319,184
Transmission & Distribution Mains	64,499,091	63,348,269	-	-	-	64,499,091	63,348,269
Services & Hydrants	13,220,186	12,916,148	-	-	-	13,220,186	12,916,148
Building Structure & Appurtenances	19,949,255	19,929,920	53,921,633	53,467,830	-	73,870,888	73,397,750
Metering System	8,051,677	7,914,238	249,218	249,218	-	8,300,895	8,163,456
Interceptor & Collector Systems	-	-	36,172,773	33,017,796	-	36,172,773	33,017,796
Capacity	1,207,901	1,207,901	1,352,798	1,654,923	-	2,560,699	2,862,824
Equipment and Furnishings	5,465,551	5,334,507	18,698,308	18,551,907	1,543,643	25,707,502	23,886,414
Less accumulated depreciation	(28,416,308)	(26,132,651)	(26,458,450)	(22,562,030)	(154,364)	(55,029,122)	(48,694,681)
Construction in progress	2,198,907	1,238,656	7,572,377	6,161,239	144,883	9,916,167	7,399,895
Total Capital Assets	96,251,032	95,476,904	93,227,604	92,250,190	1,534,162	191,012,798	187,727,094
Other Assets:							
Long-Term Portion of Receivables - Financing Contracts (Note 4)	-	-	2,530,529	2,929,650	-	2,530,529	2,929,650
Intangible Service Concession Arrangement (Note 6)	-	-	-	-	243,743,766	243,743,766	-
Pension Asset (Note 15)	16,592	16,064	5,239	7,560	-	21,831	23,624
OPEB Asset	1,176,470	1,293,589	-	-	-	1,176,470	1,293,589
Other Assets (Net of Accumulated Amortization) (Note 7)	417,857	526,095	442,816	501,150	-	860,673	1,027,245
Total Other Assets	1,610,919	1,835,748	2,978,584	3,438,360	243,743,766	248,333,269	5,274,108
Total Noncurrent Assets	106,310,560	106,407,081	96,542,166	95,688,550	315,876,176	518,728,902	202,095,631
Total Assets	118,183,854	117,482,318	111,950,632	111,004,160	330,456,764	560,591,250	228,486,478
Deferred Outflows of Resources							
Refunding Loss on Bonds	657,563	751,501	-	-	-	657,563	751,501
Total Assets and Deferred Outflows	\$ 118,841,417	\$ 118,233,819	\$ 111,950,632	\$ 111,004,160	\$ 330,456,764	\$ 561,248,813	\$ 229,237,979

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, 2013 AND 2012

- LIABILITIES AND NET POSITION -

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund	Total	
	2013	2012	2013	2012	2013	2013	2012
Current Liabilities:							
Accounts Payable - Trade	\$ 421,159	\$ 211,049	\$ 1,744,237	\$ 942,459	\$ 522,617	\$ 2,688,013	\$ 1,153,508
Accounts Payable - Capital	81,004	95,235	220,036	49,656	-	301,040	144,891
Accrued Interest Payable	203,552	208,074	3,346	3,346	1,087,310	1,294,208	211,420
Notes Payable (Note 8)	222,879	218,743	267,633	242,207	-	490,512	460,950
Revenue Bonds Payable (Note 8)	1,255,836	1,227,856	261,106	205,754	-	1,516,942	1,433,610
Developer Deposits and Other (Note 10)	132,916	156,723	10,957	2,950	-	143,873	159,673
Accrued Payroll & Other	176,800	115,775	55,832	54,483	239,118	471,750	170,258
Total Current Liabilities	<u>2,494,146</u>	<u>2,233,455</u>	<u>2,563,147</u>	<u>1,500,855</u>	<u>1,849,045</u>	<u>6,906,338</u>	<u>3,734,310</u>
Noncurrent Liabilities:							
Developer Deposits and Other (Note 10)	3,106,974	2,496,619	-	-	-	3,106,974	2,496,619
SCA Payable (Note 6)	-	-	-	-	37,257,309	37,257,309	-
Notes Payable (Note 8)	3,609,142	3,844,000	5,122,902	4,651,718	-	8,732,044	8,495,718
OPEB Liability	-	-	-	-	62,068	62,068	-
Revenue Bonds Payable (Net of Premium/Discount) (Note 8)	28,920,036	30,194,850	2,190,822	1,764,405	297,744,889	328,855,747	31,959,255
Total Noncurrent Liabilities	<u>35,636,152</u>	<u>36,535,469</u>	<u>7,313,724</u>	<u>6,416,123</u>	<u>335,064,266</u>	<u>378,014,142</u>	<u>42,951,592</u>
Total Liabilities	<u>38,130,298</u>	<u>38,768,924</u>	<u>9,876,871</u>	<u>7,916,978</u>	<u>336,913,311</u>	<u>384,920,480</u>	<u>46,685,902</u>
Net Position: (Notes 1 and 13)							
Net Investment in Capital Assets	66,487,579	65,579,721	85,385,141	85,386,106	196,938	152,069,658	150,965,827
Restricted for Debt Service	1,207,927	1,733,035	-	-	-	1,207,927	1,733,035
Unrestricted	13,015,613	12,152,139	16,688,620	17,701,076	(6,653,485)	23,050,748	29,853,215
Total Net Position (As Restated Note 19)	<u>80,711,119</u>	<u>79,464,895</u>	<u>102,073,761</u>	<u>103,087,182</u>	<u>(6,456,547)</u>	<u>176,328,333</u>	<u>182,552,077</u>
Total Liabilities and Net Position	<u>\$ 118,841,417</u>	<u>\$ 118,233,819</u>	<u>\$ 111,950,632</u>	<u>\$ 111,004,160</u>	<u>\$ 330,456,764</u>	<u>\$ 561,248,813</u>	<u>\$ 229,237,979</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, 2013 and 2012**

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund	Total	
	2013	2012	2013	2012	2013	2013	2012
OPERATING REVENUES:							
Charges for Services	\$ 7,517,127	\$ 6,948,557	\$ 15,935,816	\$ 15,508,454	\$ 14,077,962	\$ 37,530,905	\$ 22,457,011
Rent	80,930	119,003	-	-	-	80,930	119,003
Other Income	20,941	73,532	97,876	164,305	89,372	208,189	237,837
Total Operating Revenues	<u>7,618,998</u>	<u>7,141,092</u>	<u>16,033,692</u>	<u>15,672,759</u>	<u>14,167,334</u>	<u>37,820,024</u>	<u>22,813,851</u>
OPERATING EXPENSES							
Salaries and Wages	743,936	733,398	290,338	332,227	1,976,453	3,010,727	1,065,625
General and Administrative	1,007,698	1,056,894	370,857	474,918	1,217,914	2,596,469	1,531,812
Utilities	400,614	497,447	167,038	172,706	609,454	1,177,106	670,153
Materials and Supplies	314,809	284,164	143,800	151,279	634,843	1,093,452	435,443
Miscellaneous Services	1,399,343	1,173,520	5,413,037	5,292,287	651,738	7,464,118	6,465,807
Treatment and Transportation	-	-	7,128,163	5,539,924	-	7,128,163	5,539,924
Depreciation and Amortization	2,494,362	2,517,142	3,997,389	3,970,083	2,616,422	9,108,173	6,487,225
Total Operating Expenses	<u>6,360,762</u>	<u>6,262,565</u>	<u>17,510,622</u>	<u>15,933,424</u>	<u>7,706,824</u>	<u>31,578,208</u>	<u>22,195,989</u>
OPERATING INCOME (Loss)	<u>1,258,236</u>	<u>878,527</u>	<u>(1,476,930)</u>	<u>(260,665)</u>	<u>6,460,510</u>	<u>6,241,816</u>	<u>617,862</u>
NONOPERATING REVENUES (EXPENSES):							
Tapping and Capital Recovery Fees	219,845	264,493	876,328	1,751,039	12,050	1,108,223	2,015,532
Meter Sales	105,361	101,659	-	-	1,624	106,985	101,659
Inspection and Plan Reviews	101,072	75,386	26,372	266	2,600	130,044	75,652
Interest Earnings	54,544	74,852	100,112	115,115	3,497	158,153	189,967
Interest Expense	(1,408,407)	(1,431,321)	(133,737)	(118,992)	(7,101,736)	(8,643,880)	(1,550,313)
Planning and Issuance Expense	-	-	-	-	(6,081,223)	(6,081,223)	-
Other Expense	(106,373)	(160,293)	(561,186)	(491,571)	-	(667,559)	(651,864)
Other Income	302,927	326,708	480	435	246,131	549,538	327,143
Total Nonoperating (Expenses)	<u>(731,031)</u>	<u>(748,516)</u>	<u>308,369</u>	<u>1,256,292</u>	<u>(12,917,057)</u>	<u>(13,339,719)</u>	<u>507,776</u>
Increase (Decrease) in net position before capital contributions	<u>527,205</u>	<u>130,011</u>	<u>(1,168,561)</u>	<u>995,627</u>	<u>(6,456,547)</u>	<u>(7,097,903)</u>	<u>1,125,638</u>
Capital Contributions:							
Capital Grant	-	-	145,500	1,040,958	-	145,500	1,040,958
Capital Assets Provided by Developers and Others	719,019	599,169	9,640	5,100,144	-	728,659	5,699,313
Total Capital Contributions	<u>719,019</u>	<u>599,169</u>	<u>155,140</u>	<u>6,141,102</u>	<u>-</u>	<u>874,159</u>	<u>6,740,271</u>
Increase (Decrease) in Net Position	<u>1,246,224</u>	<u>729,180</u>	<u>(1,013,421)</u>	<u>7,136,729</u>	<u>(6,456,547)</u>	<u>(6,223,744)</u>	<u>7,865,909</u>
Net Position at Beginning of Year (As Restated Note 19)	<u>79,464,895</u>	<u>78,735,715</u>	<u>103,087,182</u>	<u>95,950,453</u>	<u>-</u>	<u>182,552,077</u>	<u>174,686,168</u>
Net Position at End of Year	<u>\$ 80,711,119</u>	<u>\$ 79,464,895</u>	<u>\$ 102,073,761</u>	<u>\$ 103,087,182</u>	<u>\$ (6,456,547)</u>	<u>\$ 176,328,333</u>	<u>\$ 182,552,077</u>

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

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 AND 2012**

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund	Total	
	2013	2012	2013	2012	2013	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash Received From Customers	\$ 7,458,003	\$ 6,908,440	\$ 15,984,310	\$ 13,982,343	\$ 4,941,702	\$ 28,384,015	\$ 20,890,783
Cash Payments To Suppliers For Goods And Services	(2,870,611)	(3,222,000)	(12,377,475)	(14,822,241)	(2,840,454)	(18,088,540)	(18,044,241)
Cash Payments To Employees For Services	(566,320)	(616,522)	(286,668)	(332,068)	(1,675,267)	(2,528,255)	(948,590)
Other Operating Cash Receipts	70,228	211,414	97,876	164,305	89,372	257,476	375,719
Net Cash Provided By (Used In) Operating Activities	4,091,300	3,281,332	3,418,043	(1,007,661)	515,353	8,024,696	2,273,671
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Revenue Bond Issuance Proceeds	-	-	-	-	296,760,141	296,760,141	-
Planning and Issuance Costs	-	-	-	-	(6,081,223)	(6,081,223)	-
Interest Paid on Revenue Bonds	-	-	-	-	(4,131,779)	(4,131,779)	-
Upfront Service Concession Arrangement Payment	-	-	-	-	(209,846,414)	(209,846,414)	-
Transfers From Other Funds	-	-	136,601	16,675	995,474	1,132,075	16,675
Transfers To Other Funds	(1,132,075)	(16,675)	-	-	-	(1,132,075)	(16,675)
Net Cash Provided By (Used in) Noncapital Financing Activities	(1,132,075)	(16,675)	136,601	16,675	77,696,199	76,700,725	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
(Increase) in Developer Deposits	(9,975)	(51,122)	8,007	-	-	(1,968)	(51,122)
(Increase)/Decrease in Facilities Planning Costs	(102,467)	(221,711)	(42,635)	(29,347)	-	(145,102)	(251,058)
Acquisition and Construction of Property and Equipment	(2,338,766)	(3,317,829)	(5,166,319)	(3,425,412)	(1,688,526)	(9,193,611)	(6,743,241)
Capital Contributions	-	-	145,500	1,040,958	-	145,500	1,040,958
Proceeds From Capacity Sales	-	-	302,125	475,403	-	302,125	475,403
Cash Received from Tapping and Capital Recovery Fees	219,845	264,493	876,328	1,751,039	12,050	1,108,223	2,015,532
Cash Received from Meter Sales	105,361	101,659	-	-	1,624	106,985	101,659
Cash Received from Inspection and Plan Reviews	101,072	75,386	26,372	266	2,600	130,044	75,652
Other Capital Cash Receipts	302,927	326,708	480	435	246,131	549,538	327,143
Other Capital Cash Payments	(120,604)	(230,590)	(390,806)	(551,242)	-	(511,410)	(781,832)
Revenue Bond and Note Issuance Proceeds	-	854,763	1,447,830	1,198,207	-	1,447,830	2,052,970
Principal Paid On Revenue Bonds	(1,235,336)	(1,121,172)	(227,243)	(237,735)	-	(1,462,579)	(1,358,907)
Principal Paid On Revenue Notes	(230,722)	(151,450)	(242,208)	(246,128)	-	(472,930)	(397,578)
Interest Paid On Revenue Bonds and Notes	(1,330,489)	(1,343,440)	(133,737)	(118,992)	-	(1,464,226)	(1,462,432)
Net Cash (Used in) Capital and Related Financing Activities	(4,639,154)	(4,814,305)	(3,396,306)	(142,548)	(1,426,121)	(9,461,581)	(4,956,853)
CASH FLOWS FROM INVESTING ACTIVITIES							
Maturities of Certificates Of Deposit	38,456,021	8,438,000	10,772,723	6,587,000	-	49,228,744	15,025,000
Purchase of Certificates Of Deposit	(35,018,173)	(6,161,187)	(7,848,503)	(7,133,418)	-	(42,866,676)	(13,294,605)
Interest Received On Investments	60,227	82,548	113,831	132,445	2,842	176,900	214,993
Net Cash Provided by (Used in) Investing Activities	3,498,075	2,359,361	3,038,051	(413,973)	2,842	6,538,968	1,945,388
Net Increase (Decrease) in Cash	1,818,146	809,713	3,196,389	(1,547,507)	76,788,273	81,802,808	(737,794)
Cash:							
Beginning	4,299,494	3,489,781	5,133,451	6,680,958	-	9,432,945	10,170,739
Ending	\$ 6,117,640	\$ 4,299,494	\$ 8,329,840	\$ 5,133,451	\$ 76,788,273	\$ 91,235,753	\$ 9,432,945
Cash Consisted of the Following:							
Cash and Cash Equivalents	\$ 4,521,655	\$ 3,483,823	\$ 7,993,862	\$ 5,133,451	\$ 6,190,025	\$ 18,705,542	\$ 8,617,274
Restricted Cash and Cash Equivalents	1,595,985	815,671	335,978	-	70,598,248	72,530,211	815,671
Total Cash and Cash Equivalents	\$ 6,117,640	\$ 4,299,494	\$ 8,329,840	\$ 5,133,451	\$ 76,788,273	\$ 91,235,753	\$ 9,432,945

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, 2013 AND 2012

	Suburban Water Fund		Suburban Wastewater Fund		City Division Fund	Total	
	2013	2012	2013	2012	2013	2013	2012
Reconciliation Of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities							
Operating Income (Loss)	\$ 1,258,236	\$ 878,527	\$ (1,476,930)	\$ (260,665)	\$ 6,460,510	\$ 6,241,816	\$ 617,862
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by/(Used In) Operating Activities:							
Depreciation and Amortization	2,494,362	2,517,142	3,997,389	3,970,083	2,616,422	9,108,173	6,487,225
Change in Assets and Liabilities:							
(Increase) in Accounts Receivable From Customers	(59,124)	(40,117)	(253,704)	(310,678)	(5,508,882)	(5,821,710)	(350,795)
(Increase)/Decrease in Financing Contract Receivable	-	-	391,267	(1,182,146)	-	391,267	(1,182,146)
(Increase)/Decrease in Other Operating Receivable	(31,643)	18,879	(89,069)	(33,287)	(3,627,378)	(3,748,090)	(14,408)
(Increase)/Decrease in Pension Asset	(528)	808	2,321	1,131	-	1,793	1,939
(Increase)/Decrease in Inventory	18,909	(3,768)	-	-	-	18,909	(3,768)
(Increase)/Decrease in Prepaid Expense	22,834	(11,718)	43,642	(7,354)	(249,122)	(182,646)	(19,072)
Increase in OPEB Liability	-	-	-	-	62,068	62,068	-
Decrease in OPEB Asset	117,119	107,942	-	-	-	117,119	107,942
Increase/(Decrease) in Accounts Payable - Trade	210,110	(194,489)	801,778	(3,183,773)	522,617	1,534,505	(3,378,262)
Increase/(Decrease) in Accrued Wages	61,025	8,126	1,349	(972)	239,118	301,492	7,154
Net Cash Provided By (Used In) Operating Activities	\$ 4,091,300	\$ 3,281,332	\$ 3,418,043	\$ (1,007,661)	\$ 515,353	\$ 8,024,696	\$ 2,273,671
Noncash Noncapital, and Capital Financing Activities							
Noncash Capital Activities, Contribution Capital Assets From Developers and Others	\$ 719,019	\$ 599,169	\$ 9,640	\$ 5,100,144	\$ -	\$ 728,659	\$ 5,699,313
Noncash Noncapital Activities, Accretion on Bonds Payable	-	-	-	-	984,748	984,748	-
Noncash Noncapital Activities, Change in Present Value of SCA Payable	-	-	-	-	897,899	897,899	-

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, 2013 and 2012**

	Suburban Post Employment Health Fund	
	2013	2012
Assets		
Investments:		
Mutual Funds	\$ 2,534,503	\$ 2,101,954
Total Assets	\$ 2,534,503	\$ 2,101,954
Net Position Held in Trust for Employees' Post Retirement Health Benefits	\$ 2,534,503	\$ 2,101,954

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, 2013, and 2012**

	Suburban Post Employment Health Fund	
	2013	2012
Additions:		
Contributions:		
Employer	\$ -	\$ -
Total Contributions	-	-
Investment Income:		
Net Appreciation in Fair Value of Investments	460,189	238,958
Net Investment Income	460,189	238,958
Total Additions	460,189	238,958
Deductions:		
Reimbursement of Benefits Expense	27,640	44,633
Total Deductions	27,640	44,633
Net Increase	432,549	194,325
Net Position Held in Trust for Employees' Post Retirement Health Benefits:		
Beginning of Year	2,101,954	1,907,629
End of Year	\$ 2,534,503	\$ 2,101,954

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 46,649 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 46,588 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 2,605 customers as of December 31, 2013. 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, 2013 the Water System serves 20,566 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 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, 2013, budget amendments totaling \$ 6,318,291 were approved by the Board for the costs associated with operating the Concession from August 8 through December 31, 2013.
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, 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. Other Assets

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 2013 and 2012 are as follows:

	<u>Amortization Period (Years)</u>	<u>2013 Amortization</u>	<u>2012 Amortization</u>
Suburban Water Fund:			
Facilities Planning Costs	3-10	\$ 210,705	\$ 286,915
Suburban Wastewater Fund:			
Facilities Planning Costs	3-7	<u>\$ 100,969</u>	<u>\$ 143,650</u>
Total Amortization		<u>\$ 311,674</u>	<u>\$ 430,565</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 from the General Manager, 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>2013</u>	<u>2012</u>
Balance at Beginning of Year	\$ 68,503	\$ 81,121
Additions	107,099	70,811
Retirements	<u>(49,114)</u>	<u>(83,429)</u>
Balance at End of Year	<u>\$ 126,488</u>	<u>\$ 68,503</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. Adoption of Governmental Accounting Standards Board Statements

The Authority adopted the provisions of GASB Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62". The adoption of GASB Statement No. 65, resulted in the restatement of previously reported amounts pertaining to certain debt issuance cost, and the reclassification of other previously reported amounts related to deferred refunding losses, see Note 19. The adoption of the remaining statements had no effect on previously reported amounts.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Pending Changes in Accounting Principles

In June 2012, the GASB issued Statement No. 67, “*Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*”. The Authority is required to adopt statement No. 67 for its calendar year 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, “*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27*”. The Authority is required to adopt statement No. 68 for its calendar year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, “*Government Combinations and Disposals of Government Operations*”. The Authority is required to adopt statement No. 69 for its calendar year 2014 financial statements.

In April 2013, the GASB issued Statement No. 70, “*Accounting and Financial Reporting for Nonexchange Financial Guarantees*”. The Authority is required to adopt statement No. 70 for its calendar year 2014 financial statements.

In November 2013, the GASB issued Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*”. The Authority is required to adopt statement No. 71 for its calendar year 2015 financial statements.

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

M. Reclassifications

Certain 2012 amounts have been reclassified to conform with the 2013 presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

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

	<u>2013</u>	<u>2012</u>
Demand deposit, money market, and savings accounts	\$ 83,677,442	\$ 1,163,971
Certificates of deposit, nonnegotiable	7,679,843	9,847,328
Overnight repurchase	4,473,768	7,601,459
Certificates of deposit, negotiable	4,871,556	9,066,139
Federated Treasury	816,177	18,633
OPEB Mutual Funds	2,534,503	2,101,954
Pennsylvania School District Liquid Asset Fund	<u>2,268,366</u>	<u>648,882</u>
	<u>\$106,321,655</u>	<u>\$30,448,366</u>
Classification per statements of net position:		
Unrestricted current assets		
Cash and cash equivalents	\$ 18,705,542	\$ 8,617,274
Certificates of deposit	8,576,959	12,919,687
Restricted non-current assets		
Cash and cash equivalents	72,530,211	815,671
Certificates of deposit	3,974,440	5,993,780
OPEB Mutual Funds	<u>2,534,503</u>	<u>2,101,954</u>
	<u>\$106,321,655</u>	<u>\$ 30,448,366</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

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, 2013 and 2012, the carrying amounts of the Authority's bank deposits were \$15,031,884 and \$18,612,702 respectively, and the bank balance of \$15,926,964 and \$19,267,101, respectively. As of December 31, 2013 and 2012 \$7,824,964 and \$9,247,378 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, 2013 and 2012 none of the Authority's investments were subject to custodial credit risk.

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.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

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.

Investment Maturities

As of December 31, 2013 and 2012, the Authority had the following investments and maturities:

2013						
<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	\$4,875,023	\$4,871,556	61.23%	\$3,376,451	\$1,495,105	N/A
Federated Treasury Pennsylvania School District Liquid Asset Fund	816,177	816,177	10.26%	816,177	-	N/A
	<u>2,268,366</u>	<u>2,268,366</u>	<u>28.51%</u>	<u>2,268,366</u>	<u>-</u>	AAA Standard & Poors
Total	<u>\$7,959,566</u>	<u>\$7,956,099</u>	<u>100.00%</u>	<u>\$6,460,994</u>	<u>\$1,495,105</u>	

2012						
<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	\$8,967,043	\$9,066,139	93.14%	\$3,545,245	\$5,520,894	N/A
Federated Treasury Pennsylvania School District Liquid Asset Fund	18,633	18,633	.19%	18,633	-	N/A
	<u>648,882</u>	<u>648,882</u>	<u>6.67%</u>	<u>648,882</u>	<u>-</u>	AAA Standard & Poors
Total	<u>\$9,634,558</u>	<u>\$9,733,654</u>	<u>100.00%</u>	<u>\$4,212,760</u>	<u>\$5,520,894</u>	

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

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.

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, 2013 the Authority has four 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 (\$399,121) and long-term receivables (\$2,530,529). At year-end 2012, the unpaid fees were recorded as current (\$391,267) and long-term receivables (\$2,929,650). 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 2013 and 2012 consist of the following:

	Balance at 12/31/12	Additions	Retirements	Balance at 12/31/13
Suburban Water Fund				
Non-depreciable Assets:				
Land	\$ 1,400,732	\$ 205,069	\$ -	\$ 1,605,801
Construction in progress	1,238,656	2,680,169	(1,719,918)	2,198,907
Total Capital Assets Not Being Depreciated	<u>2,639,388</u>	<u>2,885,238</u>	<u>(1,719,918)</u>	<u>3,804,708</u>
Depreciable Assets:				
Wells & Reservoirs	8,319,184	149,787	-	8,468,971
Transmission & Distribution Mains	63,348,269	1,150,822	-	64,499,091
Service & Hydrants	12,916,148	304,038	-	13,220,186
Building Structure & Appurtenances	19,929,920	19,335	-	19,949,255
Metering System	7,914,238	137,439	-	8,051,677
Equipment	5,334,507	131,044	-	5,465,551
Capacity	1,207,901	-	-	1,207,901
Total Capital Assets Being Depreciated	<u>118,970,167</u>	<u>1,892,465</u>	<u>-</u>	<u>120,862,632</u>
Less Accumulated Depreciation for:				
Wells & Reservoirs	(2,194,951)	(158,926)	-	(2,353,877)
Transmission & Distribution Mains	(8,809,275)	(637,652)	-	(9,446,927)
Service & Hydrants	(2,881,471)	(213,008)	-	(3,094,479)
Building Structure & Appurtenances	(5,183,981)	(557,213)	-	(5,741,194)
Metering System	(2,594,921)	(365,119)	-	(2,960,040)
Equipment	(3,939,845)	(319,905)	-	(4,259,750)
Capacity	(528,207)	(31,834)	-	(560,041)
Total Accumulated Depreciation	<u>(26,132,651)</u>	<u>(2,283,657)</u>	<u>-</u>	<u>(28,416,308)</u>
Total Net Capital Assets Being Depreciated	<u>92,837,516</u>	<u>(391,192)</u>	<u>-</u>	<u>92,446,324</u>
Total Capital Assets, Net	<u>\$ 95,476,904</u>	<u>\$ 2,494,046</u>	<u>\$ (1,719,918)</u>	<u>\$ 96,251,032</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (Continued)

	Balance at 12/31/12	Additions	Retirements	Balance at 12/31/13
Suburban Wastewater Fund				
Non-depreciable Assets:				
Land	\$ 1,709,307	\$ 9,640	\$ -	\$ 1,718,947
Capacity	1,654,923	600,369	(902,494)	1,352,798
Construction in progress	6,161,239	5,010,999	(3,599,861)	7,572,377
Total Capital Assets Not Being Depreciated	<u>9,525,469</u>	<u>5,621,008</u>	<u>(4,502,355)</u>	<u>10,644,122</u>
Depreciable Assets:				
Interceptor & Collector Systems	33,017,796	3,154,977	-	36,172,773
Building Structure & Appurtenances	53,467,830	453,803	-	53,921,633
Metering System	249,218	-	-	249,218
Equipment	18,551,907	146,401	-	18,698,308
Total Capital Assets Being Depreciated	<u>105,286,751</u>	<u>3,755,181</u>	<u>-</u>	<u>109,041,932</u>
Less Accumulated Depreciation for:				
Interceptor & Collector Systems	(8,123,940)	(406,147)	-	(8,530,087)
Building Structure & Appurtenances	(8,191,671)	(1,719,267)	-	(9,910,938)
Metering System	(208,252)	(4,069)	-	(212,321)
Equipment	(6,038,167)	(1,766,937)	-	(7,805,104)
Total Accumulated Depreciation	<u>(22,562,030)</u>	<u>(3,896,420)</u>	<u>-</u>	<u>(26,458,450)</u>
Total Net Capital Assets Being Depreciated	<u>82,724,721</u>	<u>(141,239)</u>	<u>-</u>	<u>82,583,482</u>
Total Capital Assets, Net	<u>\$ 92,250,190</u>	<u>\$ 5,479,769</u>	<u>\$ (4,502,355)</u>	<u>\$ 93,227,604</u>
	Balance at 12/31/12	Additions	Retirements	Balance at 12/31/13
City Division Fund				
Non-depreciable Assets:				
Construction in progress	\$ -	\$ 144,883	\$ -	\$ 144,883
Total Capital Assets Not Being Depreciated	<u>-</u>	<u>144,883</u>	<u>-</u>	<u>144,883</u>
Depreciable Assets:				
Transportation Equipment	-	1,485,804	-	1,485,804
Miscellaneous Equipment & Computers	-	34,723	-	34,723
Office Furniture & Equipment	-	23,116	-	23,116
Total Capital Assets Being Depreciated	<u>-</u>	<u>1,543,643</u>	<u>-</u>	<u>1,543,643</u>
Less Accumulated Depreciation for:				
Transportation Equipment	-	(148,580)	-	(148,580)
Miscellaneous Equipment & Computers	-	(3,472)	-	(3,472)
Office Furniture & Equipment	-	(2,312)	-	(2,312)
Total Accumulated Depreciation	<u>-</u>	<u>(154,364)</u>	<u>-</u>	<u>(154,364)</u>
Total Net Capital Assets Being Depreciated	<u>-</u>	<u>1,389,279</u>	<u>-</u>	<u>1,389,279</u>
Total Capital Assets, Net	<u>\$ -</u>	<u>\$ 1,534,162</u>	<u>\$ -</u>	<u>\$ 1,534,162</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (Continued)

	Balance at 12/31/12	Additions	Retirements	Balance at 12/31/13
Total Funds				
Total Capital Assets Not Being Depreciated	12,164,857	8,651,129	(6,222,273)	14,593,713
Total Capital Assets Being Depreciated	224,256,918	7,191,289	-	231,448,207
Total Accumulated Depreciation	(48,694,681)	(6,334,441)	-	(55,029,122)
Total Net Capital Assets Being Depreciated	175,562,237	856,848	-	176,419,085
Total Capital Assets, Net	<u>187,727,094</u>	<u>9,507,977</u>	<u>(6,222,273)</u>	<u>191,012,798</u>
	Balance at 12/31/11	Additions	Retirements	Balance at 12/31/12
Suburban Water Fund				
Non-depreciable Assets:				
Land	\$ 1,371,679	\$ 29,053	\$ -	\$ 1,400,732
Construction in progress	3,580,824	3,830,366	(6,172,534)	1,238,656
Total Capital Assets Not Being Depreciated	<u>4,952,503</u>	<u>3,859,419</u>	<u>(6,172,534)</u>	<u>2,639,388</u>
Depreciable Assets:				
Wells & Reservoirs	8,204,022	115,162	-	8,319,184
Transmission & Distribution Mains	59,308,122	4,040,147	-	63,348,269
Service & Hydrants	12,794,256	121,892	-	12,916,148
Building Structure & Appurtenances	19,924,804	5,116	-	19,929,920
Metering System	6,182,878	1,731,360	-	7,914,238
Equipment	5,118,071	216,436	-	5,334,507
Capacity	1,207,901	-	-	1,207,901
Total Capital Assets Being Depreciated	<u>112,740,054</u>	<u>6,230,113</u>	<u>-</u>	<u>118,970,167</u>
Less Accumulated Depreciation for:				
Wells & Reservoirs	(2,038,433)	(156,518)	-	(2,194,951)
Transmission & Distribution Mains	(8,197,578)	(611,697)	-	(8,809,275)
Service & Hydrants	(2,671,940)	(209,531)	-	(2,881,471)
Building Structure & Appurtenances	(4,629,006)	(554,975)	-	(5,183,981)
Metering System	(2,273,849)	(321,072)	-	(2,594,921)
Equipment	(3,595,245)	(344,600)	-	(3,939,845)
Capacity	(496,373)	(31,834)	-	(528,207)
Total Accumulated Depreciation	<u>(23,902,424)</u>	<u>(2,230,227)</u>	<u>-</u>	<u>(26,132,651)</u>
Total Net Capital Assets Being Depreciated	88,837,630	3,999,886	-	92,837,516
Total Capital Assets, Net	<u>\$ 93,790,133</u>	<u>\$ 7,859,305</u>	<u>\$ (6,172,534)</u>	<u>\$ 95,476,904</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (Continued)

	<u>Balance at 12/31/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 12/31/12</u>
Wastewater Fund				
Non-depreciable Assets:				
Land	\$ 1,275,707	\$ 433,600	\$ -	\$ 1,709,307
Capacity	2,129,976	350	(475,403)	1,654,923
Construction in progress	7,219,230	3,594,137	(4,652,128)	6,161,239
Total Capital Assets Not Being Depreciated	10,624,913	4,028,087	(5,127,531)	9,525,469
Depreciable Assets:				
Interceptor & Collector Systems	26,632,209	6,385,587	-	33,017,796
Building Structure & Appurtenances	50,951,376	2,516,454	-	53,467,830
Metering System	239,105	10,113	-	249,218
Equipment	18,314,464	237,443	-	18,551,907
Total Capital Assets Being Depreciated	96,137,154	9,149,597	-	105,286,751
Less Accumulated Depreciation for:				
Interceptor & Collector Systems	(7,765,496)	(358,444)	-	(8,123,940)
Building Structure & Appurtenances	(6,511,642)	(1,680,029)	-	(8,191,671)
Metering System	(204,436)	(3,816)	-	(208,252)
Equipment	(4,254,023)	(1,784,144)	-	(6,038,167)
Total Accumulated Depreciation	(18,735,597)	(3,826,433)	-	(22,562,030)
Total Net Capital Assets Being Depreciated	77,401,557	5,323,164	-	82,724,721
Total Capital Assets, Net	\$ 88,026,470	\$ 9,351,251	\$ (5,127,531)	\$ 92,250,190
Total Funds				
Total Capital Assets Not Being Depreciated				
Depreciated	\$ 15,577,416	\$ 7,887,506	\$ (11,300,065)	\$ 12,164,857
Total Capital Assets Being Depreciated				
Depreciated	208,877,208	15,379,710	-	224,256,918
Total Accumulated Depreciation	(42,638,021)	(6,056,660)	-	(48,694,681)
Total Net Capital Assets Being Depreciated	166,239,187	9,323,050	-	175,562,237
Total Capital Assets, Net	\$ 181,816,603	\$ 17,210,556	\$ (11,300,065)	\$ 187,727,094

As discussed in Note 14 the Authority recorded a donated capital asset in the amount of \$4,892,974 in 2012.

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 2013 and 2012 the total value of this capacity was \$1,352,798 and \$1,654,923 respectively.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 6 – SERVICE CONCESSION ARRANGEMENT

On August 7, 2013, the 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*”.

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). Amortization expense in the amount of \$2,462,058 was recognized in 2013 related to the intangible asset.

In addition to the intangible asset, LCA recorded a 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 was recorded by LCA on the execution date. This liability will be adjusted annually to reflect the present value of the future payments. Interest expense of \$897,898 was recognized in 2013 and the liability was \$37,257,309 at December 31, 2013.

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 (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.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 7 – OTHER ASSETS

Other assets for 2013 and 2012 consist of the following:

	<u>As of 12/31/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>As of 12/31/13</u>
Suburban Water Fund				
Facilities Planning Costs	\$ 1,396,949	\$ 102,466	\$ (440,362)	\$ 1,059,053
Less Accumulated Amortization	<u>(870,853)</u>	<u>(210,705)</u>	<u>440,362</u>	<u>(641,196)</u>
Total Suburban Water Other Assets - Net	<u>526,096</u>	<u>(108,239)</u>	<u>-</u>	<u>417,857</u>
Suburban Wastewater Fund				
Facilities & Planning Costs	971,438	42,635	(325,015)	689,058
Less Accumulated Amortization	<u>(470,288)</u>	<u>(100,969)</u>	<u>325,015</u>	<u>(246,242)</u>
Total Suburban Wastewater Other Assets - Net	<u>501,150</u>	<u>(58,334)</u>	<u>-</u>	<u>442,816</u>
Total Other Assets - Net	<u>\$ 1,027,246</u>	<u>\$ (166,573)</u>	<u>\$ -</u>	<u>\$ 860,673</u>

	<u>As of 12/31/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>As of 12/31/12</u>
Suburban Water Fund				
Facilities Planning Costs	\$ 1,863,954	\$ 221,711	\$ (688,716)	\$ 1,396,949
Less Accumulated Amortization	<u>(1,272,654)</u>	<u>(286,915)</u>	<u>688,716</u>	<u>(870,853)</u>
Total Suburban Water Other Assets - Net	<u>591,300</u>	<u>(65,204)</u>	<u>-</u>	<u>526,096</u>
Suburban Wastewater Fund				
Facilities & Planning Costs	1,227,559	29,347	(285,468)	971,438
Less Accumulated Amortization	<u>(612,106)</u>	<u>(143,650)</u>	<u>285,468</u>	<u>(470,288)</u>
Total Suburban Wastewater Other Assets – Net	<u>615,453</u>	<u>(114,303)</u>	<u>-</u>	<u>501,150</u>
Total Other Assets - Net	<u>\$ 1,206,753</u>	<u>\$ (179,507)</u>	<u>\$ -</u>	<u>\$ 1,027,246</u>

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT

Long-term debt for 2013 and 2012 consists of the following:

	Balance Outstanding As of 12/31/12	Additions Accretions	Retirements	Balance Outstanding As of 12/31/13	Principle Due Within One Year
Suburban Water Fund					
Water Revenue Bonds					
Series of 2008	\$ 10,000,000	\$ -	\$ (265,000)	\$ 9,735,000	\$ 270,000
Water Revenue Bonds					
Series of 2010 A	11,590,000	-	-	11,590,000	-
Water Revenue Bonds					
Series of 2010 AA	8,650,000	-	(870,000)	7,780,000	890,000
Water Revenue Bonds					
Series of 2011	1,079,228	-	(100,336)	978,892	95,836
2007 State Pennworks					
Loan	2,618,527	-	(153,182)	2,465,345	156,274
2011 Pennsylvania Infrastructure					
Investment Authority Note	1,444,216	-	(77,540)	1,366,676	66,605
Subtotal	<u>\$ 35,381,971</u>	<u>\$ -</u>	<u>\$ (1,466,058)</u>	<u>\$ 33,915,913</u>	<u>\$ 1,478,715</u>
Bond Premium Liability	103,478	-	(11,498)	91,980	
Total Suburban Water Fund Debt	<u>\$ 35,485,449</u>	<u>\$ -</u>	<u>\$ (1,477,556)</u>	34,007,893	
Less Current Maturities				<u>(1,478,715)</u>	
Net Suburban Water Fund					
Long-Term Debt				<u>\$ 32,529,178</u>	
Suburban Wastewater Fund					
2009 Pennsylvania Infrastructure					
Investment Authority Note	\$ 4,893,925	\$ -	\$ (242,208)	\$ 4,651,717	\$ 245,311
2011 Sewer Revenue Bonds					
Series A	1,291,538	709,012	(47,820)	1,952,730	76,951
2011 Sewer Revenue Bonds					
Series B	678,621	-	(179,423)	499,198	184,155
2013 Pennsylvania Infrastructure					
Investment Authority Note	-	738,818	-	738,818	22,322
Total Suburban Wastewater Fund Debt	<u>\$ 6,864,084</u>	<u>\$ 1,447,830</u>	<u>\$ (469,451)</u>	<u>\$ 7,842,463</u>	<u>\$ 528,739</u>
Less Current Maturities				<u>(528,739)</u>	
Net Suburban Wastewater Fund					
Long-Term Debt				<u>\$ 7,313,724</u>	
City Division Fund					
2013 Water and Sewer Revenue					
Bonds, Series A	\$ -	\$ 245,590,000	\$ -	\$245,590,000	\$ -
2013 Water and Sewer Capital					
Appreciation Revenue Bonds,					
Series B	-	44,343,347	-	44,343,347	-
2013 Water and Sewer Revenue					
Bonds, Series C	-	18,735,000	-	18,735,000	-
Subtotal	<u>\$ -</u>	<u>\$ 308,668,347</u>	<u>\$ -</u>	<u>\$308,668,347</u>	<u>\$ -</u>
Less Bond Discount	-	(10,923,458)	-	(10,923,458)	
Total City Division Fund Debt	<u>\$ -</u>	<u>\$ 297,744,889</u>	<u>\$ -</u>	<u>297,744,889</u>	
Total Net Long-Term Debt				<u>\$337,587,791</u>	

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

	Balance Outstanding As of <u>12/31/11</u>	Additions	Retirements	Balance Outstanding As of <u>12/31/12</u>	Principle Due Within <u>One Year</u>
Suburban Water Fund					
Water Revenue Bonds					
Series of 2008	\$ 10,000,000	\$ -	\$ -	\$10,000,000	\$ 265,000
Water Revenue Bonds					
Series of 2010 A	11,590,000	-	-	11,590,000	-
Water Revenue Bonds					
Series of 2010 AA	9,665,000	-	(1,015,000)	8,650,000	870,000
Water Revenue Bonds					
Series of 2011	1,185,400	-	(106,172)	1,079,228	92,856
2007 State Penworks					
Loan	2,768,679	-	(150,152)	2,618,527	153,183
2011 Pennsylvania Infrastructure					
Investment Authority Note	590,751	854,763	(1,298)	1,444,216	65,560
Subtotal	<u>\$ 35,799,830</u>	<u>\$ 854,763</u>	<u>\$ (1,272,622)</u>	<u>\$35,381,971</u>	<u>\$ 1,446,599</u>
Bond Premium Liability	114,974	-	(11,496)	103,478	
Total Suburban Water Fund Debt	<u>\$ 35,914,804</u>	<u>\$ 854,763</u>	<u>\$ (1,284,118)</u>	35,485,449	
Less Current Maturities				(1,446,599)	
Net Suburban Water Fund					
Long-Term Debt				<u>\$34,038,850</u>	
Suburban Wastewater Fund					
2009 Pennsylvania Infrastructure					
Investment Authority Note	\$ 4,870,664	\$ 269,389	\$ (246,128)	\$ 4,893,925	\$ 242,207
2011 Sewer Revenue Bonds					
Series A	410,176	928,818	(47,456)	1,291,538	40,902
2011 Sewer Revenue Bonds					
Series B	868,900	-	(190,279)	678,621	164,852
Total Wastewater Fund Debt	<u>\$ 6,149,740</u>	<u>\$ 1,198,207</u>	<u>\$ (483,863)</u>	\$ 6,864,084	<u>\$ 447,961</u>
Less Current Maturities				(447,961)	
Net Suburban Wastewater Fund					
Long-Term Debt				<u>\$ 6,416,123</u>	
Total Long-Term Debt				<u>\$40,454,973</u>	

The total interest incurred by the Authority, on all long-term debt for the years ended December 31, 2013 and December 31, 2012 was \$7,663,543 and \$1,530,408, respectively.

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. Interest expense for 2013 and 2012 totaled \$28,808 and \$31,652, respectively.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

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. Interest expense on the loan totaled \$51,247 and \$54,252 for 2013 and 2012, respectively.

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 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, 2013 to calculate an applicable effective rate of .88868%.

Interest expense for 2013 and 2012 totaled \$353,432 and \$359,930, respectively. 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. The Authority gross interest expense for 2013 and 2012 totaled \$649,230 and \$649,230, respectively.

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. Interest expense for 2013 and 2012 totaled \$232,138 and \$256,438.

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 amortization amount expensed in 2013 is \$93,938. The refunding decreased the Authority's total debt service payments by \$400,107 and resulted in an economic gain of \$242,757.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

On June 29, 2011, Pennvest approved a \$1,660,303 loan to the Authority for a Water Meter Replacement program. As of December 31, 2013, the Authority had requested and received \$1,444,216 of the loan proceeds. 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. Interest expense amounted to \$10,844 in 2012 and \$14,088 in 2013.

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
2014	\$ 1,478,715	\$ 1,301,431	\$ 2,780,146
2015	1,522,894	1,267,212	2,790,106
2016	1,494,745	984,473	2,479,218
2017	1,531,096	953,377	2,484,473
2018	1,571,490	919,638	2,491,128
2019-2023	8,644,320	4,003,408	12,647,728
2024-2028	10,410,238	3,234,935	13,645,173
2029-2032	<u>7,262,415</u>	<u>826,806</u>	<u>8,089,221</u>
	<u>\$ 33,915,913</u>	<u>\$ 13,491,280</u>	<u>\$47,407,193</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. Interest expense totaled \$13,285 and \$16,869 in 2013 and 2012, respectively.

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, 2013, \$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. Interest expense for 2013 and 2012, totaled \$32,897 and \$18,651, respectively.

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. Interest expense for 2013 and 2012 totaled \$58,938 and \$63,165,

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (Continued)

respectively. Total principal paid on this loan was \$242,208 and \$246,128 in 2013 and 2012, respectively.

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. In 2013 only \$738,818 was drawn down to the Authority to provide reimbursement for payments to date. The loan carries an interest rate of 1% for the first 5 years and 1.51% thereafter, for a period of 15 years. Interest expense for 2013 was \$1,478.

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

Year	Principal Amount	Total Interest	Total Debt Service
2014	\$ 528,739	\$ 113,814	\$ 642,553
2015	555,669	108,057	663,726
2016	480,122	145,880	626,002
2017	335,848	195,579	531,427
2018	344,634	185,461	530,095
2019-2023	2,021,069	758,766	2,779,835
2024-2028	2,347,463	398,374	2,745,837
2029-2033	1,214,857	49,138	1,263,995
2034	<u>14,062</u>	<u>44</u>	<u>14,106</u>
Total	<u>\$ 7,842,463</u>	<u>\$ 1,955,113</u>	<u>\$ 9,797,576</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.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 8 – LONG TERM DEBT (Continued)

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.

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

Year	Principal Amount	Total Interest	Total Debt Service
2014	\$ -	\$ 13,047,722	\$ 13,047,722
2015	-	13,047,722	13,047,722
2016	-	13,047,722	13,047,722
2017	-	13,047,722	13,047,722
2018	18,735,000	13,047,722	31,782,722
2019-2023	4,882,860	64,198,327	69,081,187
2024-2028	10,137,527	72,303,660	82,441,187
2029-2033	12,615,895	85,660,293	98,276,188
2034-2038	30,972,065	112,504,123	143,476,188
2039-2043	132,335,000	58,449,938	190,784,938
2044-2047	<u>98,990,000</u>	<u>20,292,950</u>	<u>119,282,950</u>
Total	<u>\$ 308,668,347</u>	<u>\$ 478,647,901</u>	<u>\$ 787,316,248</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 funds on a proportional basis. The interfund receivables and payables are as follows:

Fund	2013		2012	
	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Enterprise Funds:				
City Division	\$ -	\$ 995,474	\$ -	\$ -
Suburban Water	2,391,874	-	1,259,799	-
Suburban Wastewater	-	<u>1,396,400</u>	-	<u>1,259,799</u>
Total	<u>\$ 2,391,874</u>	<u>\$ 2,391,874</u>	<u>\$ 1,259,799</u>	<u>\$ 1,259,799</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 \$143,873 and \$159,673 as of December 31, 2013 and 2012, 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 \$3,106,974 and \$2,496,619 as of December 31, 2013 and 2012, respectively.

NOTE 11 – COMMITMENTS & CONTINGENCIES

As of December 31, 2013, the Authority, through contractual agreements, had construction commitments of \$5,071,386 for various capital projects as compared to \$6,984,642 at year-end 2012. Operating and Capital reserves, construction note proceeds and grants will fund these expenditures.

Since 2009 the Authority has been making payments to the City for wastewater treatment and transportation charges under protest, contesting some of the cost charged by the City. The Authority has reached a settlement and an agreement in principal in regard to the disputed billings for treatment and transportation. This settlement has been reduced to writing and signed by the Authority, and is pending final execution by the City and Other Municipal Users.

Within seven days of execution of the settlement agreement the City is obligated to issue payment in the amount of \$2,129,802 to the Authority and the System Users. The Authority's share of the settlement is \$938,935. As the agreement has not yet been executed, a receivable has not been recorded on the December 31, 2013 financial statements of the Authority.

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, 2011, the most recent actuarial valuation date, the plan was 96.62% funded. The actuarial accrued liability for benefits was \$2,043,446 and the actuarial value of assets was \$1,974,410, resulting in an unfunded actuarial accrued liability (UAAL) of \$69,036. The Authority plans to reimburse itself semi-annually for its portion (79%) of benefit cost.

Payroll for 2013 of active employees covered by the plan was \$1,528,660 and the ratio of UAAL to covered payroll is 4.52%.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 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, contributions to the plan, and changes in the net OPEB obligation:

	<u>2013</u>	<u>2012</u>
Annual Required Contribution	\$ 92,390	\$ 83,675
Interest on Net OPEB Obligation	(81,404)	(86,132)
ARC Adjustment	<u>106,133</u>	<u>110,399</u>
OPEB Cost	117,119	107,942
Employer Contribution	<u>-</u>	<u>-</u>
Change in Net OPEB Obligation	117,119	107,942
Net OPEB (Asset) Obligation – beginning of year	<u>(1,293,589)</u>	<u>(1,401,531)</u>
Net OPEB (Asset) Obligation – end of year	<u>\$(1,176,470)</u>	<u>\$(1,293,589)</u>

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/(Asset)</u>
12/31/11	\$ 99,809	0%	\$(1,401,531)
12/31/12	107,942	0%	(1,293,589)
12/31/13	117,119	0%	(1,176,470)

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.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the January 1, 2011 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 6% for 2011 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.

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 2013, the Authority's contribution to the plan was \$8,293.

Funding Status and Progress: As of August 8, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$1,658,670 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,658,670.

Payroll for 2013 of active employees covered by the plan was \$1,325,125 and the ratio of UAAL to covered payroll is 125.17%.

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 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, contributions to the plan, and changes in the net OPEB obligation:

	<u>2013</u>
Annual Required Contribution	\$ 70,361
Interest on Net OPEB Obligation	-
RC Adjustment	-
OPEB Cost	<u>70,361</u>
Employer Contribution	<u>8,293</u>
Change in Net OPEB Obligation	62,068
Net OPEB Obligation – beginning of year	-
Net OPEB Obligation – end of year	<u>\$ 62,068</u>

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>
12/31/13	70,361	11.79%	62,068

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 August 8, 2013 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 8% for 2014, 8.5% for 2015 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, 85% of all future retirees are assumed to be married, and 20% of retirees are assumed to have one child participating in the plan. The UAAL is being amortized over a closed period of 25 years.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

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

NOTE 14 – LYNN TOWNSHIP WASTEWATER TREATMENT FACILITY

In 2012, the Authority took ownership of the Lynn Township Wastewater Treatment Facility, which was operated by Lynn Township in prior years. The transaction resulted in the facility being donated to the Authority at a fair market value of \$4,892,974, which is included in the financial statements under Capital Assets Provided by Developers and Others.

NOTE 15 – DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Authority, through a July 1975 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.

Major provisions of the 1975 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.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 15 – DEFINED BENEFIT PENSION PLAN (Continued)

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.

B. Funding Policy

The pension agreement requires periodic employer contributions at actuarially-determined rates using the Entry Age Normal Cost Method that are sufficient to accumulate assets to pay benefits when due. Employees are required to contribute a minimum of 1% of regular compensation with a maximum contribution of 10% of gross salary.

C. Annual Pension Cost and Net Pension Asset

The Authority's annual pension cost and net pension asset for 2013 and 2012 were as follows:

	Cost	
	2013	2012
Annual required contribution	\$ 190,996	\$ 136,779
Interest on net pension asset	(1,417)	(1,534)
Adjustment to annual required contribution	3,210	3,473
Annual pension cost	192,789	138,718
Contributions made	190,996	136,779
Decrease in net pension asset	(1,793)	(1,939)
Net pension asset, beginning of year	23,624	25,563
Net pension asset, end of year	\$ 21,831	\$ 23,624

The latest actuarial valuation of January 1, 2013 includes assumptions of: (a) projected salary increases of 4.1% annually and (b) 5.5% investment rate of return (net of administrative expenses) (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets is determined using fair values.

Trend Information for Pension Fund

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	% of APC <u>Contributed</u>	Net Pension <u>Asset</u>
2011	136,554	98%	25,563
2012	138,718	98%	23,624
2013	192,789	99%	21,831

The 2011 actuarial study indicates that the Authority's pension plan is overfunded. The surplus is being amortized over 10 years using the level dollar, closed amortization method.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 15 – DEFINED BENEFIT PENSION PLAN (Continued)

D. Funded Status

A schedule of funding progress as of the most recent actuarial valuation is as follows:

<u>Actuarial Valuation Date 1/1/13</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as % of Covered Payroll</u>
2013	17,131,125	16,982,826	(148,299)	100.87%	2,220,914	(6.68)%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

NOTE 16 – 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 six & fourteen employees contributed into the plan during 2013 and 2012 respectively.

NOTE 17 – 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 651 Pennsylvania municipal entities as of December 31, 2013. 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 2013 and 2012 the Authority paid \$288,429 and \$76,908 to PIRMA as its share of liability insurance premiums, respectively. The 2013 payment represented \$212,033 for the City Division and \$76,396 for the Suburban Division.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

Notes to Financial Statements

NOTE 17 – RISK MANAGEMENT (Continued)

The Authority is a member of the Delaware Valley Workers' Compensation Trust since 1993. The trust, formed in 1992, is a pool of 58 municipal entities located in Southeastern Pennsylvania. The Authority paid costs of \$76,483 in 2013 as compared to \$23,762 for 2012. The 2013 payment represented \$59,214 for the City Division and \$17,269 for the Suburban Division. The pool provides coverage up to the Pennsylvania Statutory limit. Since January 1, 2005 the trust assumed coverage for the first \$500,000 per occurrence with excess insurance providing remaining coverage to the 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 Authority offers employees health care coverage through either an HMO or a traditional medical plan using the Pennsylvania Municipal Insurance Cooperative (PMHIC) to purchase such insurance. The purpose of the cooperative, which consists of 206 municipal entities as of December 31, 2013, 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 \$30,000 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, 2013 and December 31, 2012 totaled \$325,320 and \$336,361, respectively.

The Authority also purchases property coverage through the PIRMA pool in 2012. In 2013, the Authority bid out the property insurance and CAN was chosen as the carrier, brokered through Murray Securus. For 2013 and 2012, insurance costs amounted to \$160,124 and \$112,734, 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 three years.

NOTE 18 – 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 2013 and 2012, 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 19 – RESTATEMENT OF 2012 FINANCIAL STATEMENTS

The following 2012 amounts have been restated for the adoption of GASB Statement No. 65:

Suburban Water Fund				
	Beginning Net Position	Depreciation and Amortization	Deferred Expenses and Other Assets	Ending Net Position
Amount as Previously Reported	\$ 79,156,131	\$ 2,546,692	\$ 916,961	\$ 79,855,761
Adjustment for Issuance Cost	(420,416)	(29,550)	(390,866)	(390,866)
Amount as Restated	\$ 78,735,715	\$ 2,517,142	\$ 526,095	\$ 79,464,895

Suburban Wastewater Fund				
	Beginning Net Position	Depreciation and Amortization	Deferred Expenses and Other Assets	Ending Net Position
Amount as Previously Reported	\$ 95,997,700	\$ 3,975,693	\$ 542,787	\$ 103,128,819
Adjustment for Issuance Cost	(47,247)	(5,610)	(41,637)	(41,637)
Amount as Restated	\$ 95,950,453	\$ 3,970,083	\$ 501,150	\$ 103,087,182

**REQUIRED
SUPPLEMENTARY
INFORMATION**

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN
SCHEDULE OF FUNDING PROGRESS**

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]
	01/01/05	\$ 10,134,547	\$ 8,741,381	\$ (1,393,166)	115.94%	\$ 1,823,569	(76.40)%
	01/01/07	11,377,291	10,210,081	(1,167,210)	111.43%	2,085,543	(55.97)%
51	01/01/09	13,610,916	12,706,348	(904,568)	107.12%	2,352,616	(38.45)%
	01/01/11	15,271,640	14,833,278	(438,362)	102.96%	2,563,288	(17.10)%
	01/01/13	17,131,125	16,982,826	(148,299)	100.87%	2,220,914	(6.68)%

¹ Actuarial valuations are completed every other year.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE 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%

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Health & Welfare Plan For City Division Employees

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%

¹ Actuarial valuations are completed every three years.

**LEHIGH COUNTY AUTHORITY
ALLENTOWN, PENNSYLVANIA**

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

Health & Welfare Plan For Suburban Employees

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<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>
12/31/10	147,850	1,895,186	1,281.83%	(1,501,340)
12/31/11	99,809	-	0%	(1,401,531)
12/31/12	107,942	-	0%	(1,293,589)
12/31/13	117,119	-	0%	(1,176,470)

Health & Welfare Plan For City Division 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>
08/08/13	70,361	8,293	11.79%	62,068

**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, 2013**

	Western Lehigh Interceptor System	Other Wastewater Funds	Total Wastewater Fund
Operating Revenues			
Charges for Services	\$ 5,907,344	\$ 10,028,472	\$ 15,935,816
Other Income	101,040	(3,164)	97,876
Total Operating Revenues	<u>6,008,384</u>	<u>10,025,308</u>	<u>16,033,692</u>
Operating Expenses			
Salaries and Wages	134,100	156,238	290,338
General and Administrative	211,979	158,878	370,857
Utilities	20,935	146,103	167,038
Materials and Supplies	52,520	91,280	143,800
Miscellaneous Services	187,498	5,225,539	5,413,037
Treatment and Transportation	5,478,887	1,649,276	7,128,163
Depreciation and Amortization	534,961	3,462,428	3,997,389
Total Operating Expenses	<u>6,620,880</u>	<u>10,889,742</u>	<u>17,510,622</u>
Operating Income (Loss)	<u>(612,496)</u>	<u>(864,434)</u>	<u>(1,476,930)</u>
Nonoperating Revenues (Expenses)			
Tapping and Capital Recovery Fees	453,803	422,525	876,328
Inspection and Plan Reviews	-	26,372	26,372
Interest Earnings	73,561	26,551	100,112
Interest Expense	(74,223)	(59,514)	(133,737)
Other Expense	(32,117)	(529,069)	(561,186)
Other Income	-	480	480
Total Nonoperating Revenues (Expenses)	<u>421,024</u>	<u>(112,655)</u>	<u>308,369</u>
Increase (Decrease) in net position before capital contributions	<u>(191,472)</u>	<u>(977,089)</u>	<u>(1,168,561)</u>
Capital Contributions			
Capital Grant	-	145,500	145,500
Capital Assets Provided by Developers and Others	-	9,640	9,640
Total Capital Contributions	<u>-</u>	<u>155,140</u>	<u>155,140</u>
Decrease in Net Position	<u>(191,472)</u>	<u>(821,949)</u>	<u>(1,013,421)</u>
Net Position at Beginning of Year	<u>26,354,009</u>	<u>76,733,173</u>	<u>103,087,182</u>
Net Position at End of Year	<u>\$ 26,162,537</u>	<u>\$ 75,911,224</u>	<u>\$ 102,073,761</u>



Lehigh County Authority

1053 Spruce Street * P.O. Box 3348 * Allentown, PA 18106-0348
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MEMORANDUM

Date: June 13, 2014

To: Authority Board

From: Jason Peters, Frank Leist

Subject: Allentown Division- Water Main Replacement Program
Construction Phase for- Cycle 1

MOTIONS /APPROVALS REQUESTED:

No.	Item	Amount
1	<u>Capital Project Authorization – Amendment No. 1</u> Construction Phase, Cycle-1:	\$2,315,185
2 **	<u>Professional Services Amendment No. 1-</u> Construction Phase, Cycle-1 <i>Gannett Fleming Inc.</i>	\$152,862
3 **	<u>Contract Awards:</u> Cycle-1. <ul style="list-style-type: none"> • General Construction: <i>DOLI Construction Corporation</i> 	\$1,927,323

(**) *Included in the Capital Project Authorization*

PROJECT OVERVIEW:

Through the Operating Standards of the Lease Agreement (Agreement) Lehigh County Authority (LCA) is required to annually replace two-miles of aged spun and/or pit cast-iron water mains following a certain criteria as described in the Agreement, except in the first year where only one-mile is required to be replaced. This work also has to be coordinated with not only the City’s Streets program but other City of Allentown (COA) departments along with other outside agencies and private utilities such as UGI. Given the complex nature of the project unlike water main replacements in a suburban area such as the Central Lehigh Division, construction in a highly populated urban area with many underground facilities and continuous traffic and work restrictions in certain areas during civic events will present many challenges and will require a significant amount of coordination and public relations efforts.

PROJECT STATUS

Previously, the Board approved the Design Phase and Pipe Prioritization Assessment Program for Cycles 1-3 of the Project in October 2013. In working closely with the COA and all other necessary outside agencies LCA was able to obtain all approvals and permits required to start the construction phase of this project.

Cycle-1 includes 6,755 L.F. of water main replacement in six separate locations in the City (map to be provided under separate cover). The minimum requirement for Cycle-1 pursuant to the Lease is 5,280 L.F. (one mile) of pipe. The reason for the additional 1,475 L.F. of water main is that from an engineering standpoint the installations need to be from intersection to intersection thus allowing future replacements to be easily extended without interruptions in service to customers in the area. This additional water main will then be credited to future cycle installation requirements as noted in the Agreement.

The project was advertised for bid on May 6, 2014. A mandatory pre-bid meeting was held on May 21, 2014 at LCA’s main office where eleven (11) contractors attended the meeting. Four bids were initially received on June 5, 2014, one of which has been withdrawn. The remaining three bids are listed below.

THIS APPROVAL: CONSTRUCTION PHASE CYCLE 1

BIDDING SUMMARY- CONSTRUCTION CONTRACTS

The bidding results are as follows:

General Construction	
Bidder	Amount
<i>DOLI Construction Corporation</i>	<i>\$1,927,323</i>
Michael F. Ronca & Sons, Inc.	\$2,121,000
Sikora Bros	\$2,105,093

In addition to the three contractors listed above in the bidding results Joao & Bradley Construction Co., Inc. (Joao) also submitted a bid in the amount of \$1,355,350. 2-hours after submitting their bid via the Penn Bid system Joao realized they made a \$277,236 error and submitted a request to withdrawal their bid. We met with Joao and they explained that the clerical error was caused by an incorrect formula in a cell of the Excel work sheet they used for the preparation of their bid. LCA Staff has determined that the error meets the definition in the Public Bidding Law to allow Joao to withdraw their bid and has granted their request.

Reference checks for, DOLI Construction Corporation have identified no issues. In fact, DOLI Construction Corporation performed well a few years ago on the LCA Oakland Park Subdivision water main replacement project. Therefore, we recommend awarding the General Construction contract to DOLI Construction Corporation of Chalfont, PA; subject to the receipt of the necessary Performance Bonds, Insurance and other required documentation.

PROFESSIONAL SERVICES

As this is the first of many mandatory water main replacement projects in our Allentown Division it is extremely important to have seamless continuity between the design and construction. As such we recommend retaining, Gannett Fleming Inc. our design consultant to provide construction engineering, management, and inspection related services for the Cycle-1 construction phase of the project. The work will generally include:

1. Conduct pre construction conference.
2. Review contractor's construction schedule and updates for compliance with project.
3. Arrange and conduct monthly progress meetings and provide meeting minutes.
4. Review all contractor submittals to ensure that design objectives and requirements of the Contract Documents are met.
5. Prepare Change Orders.
6. Respond to contractor Requests-for-Information.
7. Review certified payrolls.
8. Perform Full Time field inspection.
9. Collect GPS data points in the field.
10. Conduct walkover of the project site with contractors and LCA representatives.
11. Provide LCA with recommendation on completeness of work, final acceptance and release of final payment.

SCHEDULE

Assuming approval of the Construction Phase at the June 18, 2014 Board meeting, all water main replacements for cycle 1 will be operational by October 1, 2014 (i.e. the substantial completion date).

FUTURE AUTHORIZATIONS

1. Construction Phase for Cycle 2, 2-miles of water main, anticipated in March 2015
2. Construction Phase for Cycle 3, 2-miles of water main, anticipated in March 2016

CAPITAL PROJECT AUTHORIZATION

PROJECT NO.:	AD-W-13-1	BUDGET FUND:	Allentown Div\Water\Capital
PROJECT TITLE:	Allentown Division -Water Main Replacement Program Cycles 1-3	PROJECT TYPE:	
THIS AUTHORIZATION TO DATE (W/ABOVE)	<u>\$ 2,315,185</u> <u>\$ 3,203,137</u>	<input checked="" type="checkbox"/> Construction	<input type="checkbox"/> Engineering Study
		<input type="checkbox"/> Equipment Purchase	<input checked="" type="checkbox"/> Amendment No.1

DESCRIPTION AND BENEFITS:

Through the Operating Standards of the Lease Agreement (Agreement) Lehigh County Authority is required to annually replace two-miles of aged spun and/or pit cast-iron water mains, except in the first year where only one-mile is required following a certain criteria as described in the Agreement. An additional 1,475 LF will be installed outside of the required one-mile of water main for cycle 1. This additional water main will then be credited to future cycle installation as noted in the Agreement.

The replacements of these mains are critical in meeting the requirements of the Lease Agreement but also will provide increased reliability of water service for our customers.

THIS AMENDMENT –Construction Phase, Cycle-1

Please reference the cover Memo for additional information.

Authorization Status:

Previous Authorizations	
Design Phase Cycles 1-3	\$887,952
REQUESTED THIS AUTHORIZATION	
Construction Phase Cycle 1	
Staff	\$37,500
Professional Services	
Construction Engineering / Management	\$57,862
Construction Inspection	\$95,000
General Construction Contract	\$1,927,323
Misc	\$47,500
Contingency	\$150,000
Total This Authorization	\$2,315,185
Future Authorization	
Construction Phase for Cycle 2 & 3	\$7,600,000
Total Estimated Project	\$10,803,137

REVIEW AND APPROVALS:

Project Manager	Date	Chief Executive Officer	Date
Chief Capital Works Officer	Date	Chairman	Date



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**PROFESSIONAL SERVICES AUTHORIZATION
Amendment No. 1**

Professional: GANNETT FLEMING, INC.
P.O. Box 67100
Harrisburg, PA 17106

Date: June 13, 2014

Requested By: Jason Peters

Approvals
Department Head: _____
Chief Executive Officer: _____

Allentown Division – Water Main Replacement Program Cycles 1-3

Previous Authorizations- Design Phase, Cycles 1-3: \$467,952

This Authorization- Construction Phase, Cycle-1: \$152,862

Gannett Fleming, Inc. will provide construction related services including but not limited to conducting pre-construction, progress and close out meetings, catalog cut / shop drawing review and approval, change orders, RFI response, Inspection, collect GPS data points in the field, and technical assistance within the following Professional Services.

Professional Services
1. Construction Engineering & Management Services
2. Construction Inspection Services

Please reference the cover Memo for additional information.

Cost Estimate (not to be exceeded without further authorization): \$620,814

Time Table and Completion Deadline: As required to meet various critical deadlines as set forth in the proposal.



(For Authority Use Only)

Authorization Completion:

Approval: _____ **Actual Cost:** _____ **Date:** _____

RESOLUTION No. 6-2014-1

(Duly adopted 18 June 2014)

A RESOLUTION DECLARING THE OFFICIAL INTENT OF LEHIGH COUNTY AUTHORITY (THE "AUTHORITY") TO REIMBURSE ITS NON-BORROWED FUNDS USED TO PAY THE WYNNEWOOD TERRACE PUMP STATION AND FORCE MAIN REPLACEMENT PROJECT COSTS FROM PROJECT FINANCING PROCEEDS THE AUTHORITY MAY RECEIVE FROM THE PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY ("PENNVEST") OR OTHER FINANCINGS

WHEREAS, the Authority is, and has been, developing regional water and sewer systems in Lehigh County, Pennsylvania; and

WHEREAS, a standalone wastewater collection and treatment system in North Whitehall Township for the Wynnewood Terrace subdivision and vicinity developed problems requiring replacement of a pump station and force main; and

WHEREAS, the Authority plans to seek financing from PennVEST, or other financings, for the replacement of the Wynnewood Terrace Pump Station and Force Main (the "Project"); and

WHEREAS, the Authority will be using monies from its non-borrowed funds to finance the Project until such Project financing is available and wishes to preserve its rights to reimburse its non-borrowed funds for these expenditures;

NOW THEREFORE BE IT RESOLVED by the Board of this Authority that:

1. The Authority intends to use its non-borrowed funds to finance, on an interim basis, the costs of the Project which costs are reasonably expected to be reimbursed with the proceeds of debt to be incurred by the Authority, up to the maximum principal amount of \$1,000,000.

2. This resolution is a declaration of official intent adopted pursuant to the requirements of U.S. Treasury Regulation §1.150.2.

3. The adoption of this resolution is consistent with the budgetary and financial circumstances of the Authority.

4. The Chief Executive Officer and Chief Financial Officer of the Authority are authorized, empowered and directed to execute any and all documents and to do, and cause to be done, any and all acts and things which in their judgment are necessary or desirable to carry out the purposes and intent of this resolution, with their signatures subject to attestation by the Solicitor or Chief Administrative Officer and affixation of the Authority seal.

On motion of _____, seconded by _____, this Resolution was adopted the 18th day of June 2014.