

**EAST LAMPETER SEWER AUTHORITY**

**Financial Statements**

**December 31, 2014**

**WEINHOLD, NICKEL & COMPANY, LLP**

**Certified Public Accountants**

**Reamstown, PA 17567**

## CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	2 – 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 – 9
BASIC FINANCIAL STATEMENTS	
Statement of Net Position – Modified Cash Basis	10
Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis	11
Statement of Cash Flows – Modified Cash Basis	12 - 13
Notes to Financial Statements	14 – 25

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board  
East Lampeter Sewer Authority  
Lancaster, Pennsylvania

We have audited the accompanying financial statements of the East Lampeter Sewer Authority, a component unit of East Lampeter Township, as of December 31, 2014 and for the nine months then ended, and the related notes to the financial statements, which collectively comprise the 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 the modified cash basis of accounting. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the East Lampeter Sewer Authority as of December 31, 2014, and the changes in financial positions and cash flows for the nine months then ended, in conformity with the basis of accounting as described in the notes to the financial statements.

**Report on Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Authority's basic financial statements. Management's discussion and analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Basis of Accounting**

We draw attention to the notes of the financial statements that describe the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

*Weinhold, Nickel & Company, LLP*

July 6, 2015

Reamstown, Pennsylvania

**EAST LAMPETER SEWER AUTHORITY**  
Management's Discussion and Analysis  
For the Nine Months Ended December 31, 2014

**INTRODUCTION**

The following discussion and analysis of the financial performance of the East Lampeter Sewer Authority provides an overview of the Authority's financial activities for the nine months ended December 31, 2014. This should be read in conjunction with the financial statements that follow this section.

**GENERAL INFORMATION**

East Lampeter Sewer Authority is a component unit of East Lampeter Township, a second class Township. A component unit is a legally separate organization for which the elected officials of the primary government, East Lampeter Township, are financially accountable. The Authority is a financing authority operating under the Pennsylvania Municipal Authorities Act of 1945. As a financing authority, it finances, acquires, and owns capital assets. The sewer system and related facilities are leased exclusively to East Lampeter Township. The Township operates and maintains the system. The payment of the debt obligations acquired through the construction of these assets is guaranteed by the Township and funded by rental payments received from East Lampeter Township.

In order to comply with the requirement to present the East Lampeter Sewer Authority financial activities as part of the East Lampeter Township government-wide financial statements, two accounting changes were implemented in 2014.

1. The basis of accounting used by the Authority was changed from accrual to modified cash basis as of April 1, 2014.
2. The Authority's fiscal year end was changed to December 31.

The financial statements, associated notes, and this management discussion and analysis included in this report reflect these changes.

**FINANCIAL HIGHLIGHTS**

- The Authority has met all of its required debt service payments during the nine months ended December 31, 2014.
- Lancaster City held escrow accounts for six (6) sewer plant improvement projects. During the nine months ended December 31, 2014, East Lampeter Sewer Authority's share of construction costs from these accounts totaled \$343 thousand. Two of the six projects were completed in 2014 and the unused funds were returned to the Authority.
- During the nine months ended December 31, 2014, the Authority paid an additional \$32 thousand for a major rehabilitation of the sewer distribution system in the area of US 30.

**EAST LAMPETER SEWER AUTHORITY**  
Management's Discussion and Analysis  
For the Nine Months Ended December 31, 2014

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of the Management's Discussion and Analysis and the Basic Financial Statements. The Basic Financial Statements include notes which explain some of the information included in the financial statements.

**BASIS OF ACCOUNTING**

The Authority has elected to present its financial statements on a modified cash basis of accounting. As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed for provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, as well as accrued expenses and liabilities) are not recorded in these financial statements. The only assets recorded are cash, investments, and escrow accounts resulting from cash transactions. Neither capital assets and the related depreciation nor long term debt has been recorded in these financial statements.

**FINANCIAL STATEMENT ANALYSIS**

**Statement of Net Position – Modified Cash Basis**

This statement provides information about the nature and amounts of investments in resources. The Authority's obligations are not presented under modified cash basis of accounting.

- Assets are divided into three categories:

**Cash** is used to pay the current operating expenses of the Authority.

**Investments** are funds on deposit with a trustee as required by the Bond obligations. As of December 31, 2014, there was a total of \$4.3 million held by the Trustee. These funds are designated for the following purposes:

Available for construction projects	\$ 4,228,164
Available for Administrative expense	30,003
Other	57

**Escrow Agreements with Lancaster City** - During the current fiscal year, construction costs expended from these accounts amounted to \$.34 million. \$.38 million was returned to the construction account held by the Trustee for future projects. Two projects were completed during the fiscal year. The balance in the escrow accounts as of December 31, 2014 is \$1.98 million

**Total Assets** increased from \$4,014,260 (as adjusted) to \$6,241,584 between March 31, 2014 and December 31, 2014, an increase of 55%.

**EAST LAMPETER SEWER AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Nine Months Ended December 31, 2014**

• **Net Position** is restricted to payment for Capital Projects and Administrative expenses. The following table compares the various categories of assets and net position for December 31, 2014 (ending balance) and March 31, 2014 as adjusted (beginning balance).

**Condensed Statement of Net Position - Modified Cash Basis**

Table 1

Assets	12/31/14	As Adjusted 3/31/14	Increase(Decrease)	
			Amount	%
Cash	\$ 5,318	\$ 17,486	\$ (12,168)	(70%)
Investment Funds	4,258,224	1,297,050	2,961,174	228%
City of Lancaster Escrow Agreements	1,978,042	2,699,724	(721,682)	(27%)
<b>Total Assets</b>	<b>\$ 6,241,584</b>	<b>\$ 4,014,260</b>	<b>\$ 2,227,324</b>	<b>55%</b>
<b>Net Position</b>				
Restricted to payment of Administrative Expenses	\$ 35,321	\$ 32,488	\$ 2,833	9%
Restricted to payment of Capital Projects and Debt Service	6,206,263	3,981,772	2,224,491	56%
<b>Total Net Position</b>	<b>\$ 6,241,584</b>	<b>\$ 4,014,260</b>	<b>\$ 2,227,324</b>	<b>55%</b>

**Statement of Revenues, Expenditures and Changes in Net Position – Modified Cash Basis**

This statement provides information on the Authority's financial activities. It can be used to determine whether the revenues of the Authority are sufficient to cover its costs.

The following table compares the revenues and expenditures for the nine months ended December 31, 2014.

**Condensed Statement of  
Revenues, Expenditures and Changes in Net Position  
Modified Cash Basis  
Nine Months Ended  
12/31/2014**

Table 2

Operating Revenues	\$ 669,069
Operating Expenditures	<u>411,910</u>
Operating Income (Loss)	257,159
Interest and Investment Income	357
Bond Proceeds	9,014,975
Interest Paid to Township	(480)
Bond Issuance Cost	(104,348)
Interest on Long Term Debt	(255,339)
Refunding of Long Term Debt	(6,065,000)
Principal Payments on Long Term Debt	<u>(620,000)</u>
Change in Net Position	2,227,324
Total Net Position Beginning	4,014,260
Total Net Position Ending	\$ 6,241,584

**EAST LAMPETER SEWER AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Nine Months Ended December 31, 2014**

- **Operating revenues** consist of the rental payments received from East Lampeter Township. The operating revenues paid by East Lampeter Township were in accordance with lease schedules agreed to in the trust indenture and to cover the interest and principal payments on the revenue bonds are as follows:

Administrative Fees	\$ 15,000
Interest Payments	34,069
Principal Payments	<u>620,000</u>
Total Operating Revenues	\$ 669,069

- **Operating expenditures** include authority administrative expenses and construction costs.
- **Non-operating revenues (expenses)** consist of interest income, interest paid on long term debt, interest paid to Township, and scheduled principal payments on long term debt. Proceeds from the 2014 bond sale, bond issuance costs, and the related refunding of 2009 debt is also included in this category.
- **Change in Net Position** increase resulted from the bond proceeds exceeding the cost of refunding and the current year debt obligations. The operating income also increased the Net Position. As the bond proceeds are expended, Net Position will decline until the next borrowing.

**Statement of Cash Flows – Modified Cash Basis**

This statement provides information on the Authority's cash receipts, cash payments, and changes in cash from operating, investing, and financing activities. It does not include payments made directly by the Township as cash was not affected. The following table compares the source and use of cash and the change in cash balance for nine months ended December 31, 2014.

Table 3

**Condensed Statement of Cash Flows**  
**Nine Months Ended**  
**12/31/14**

Net Cash Provided (Used) by Operating Activities	\$ 600,923
Net Cash Provided (Used) by Financing Activities	1,969,808
Net Cash Provided (Used) by Investing Activities	<u>378,275</u>
Net Cash Increase in Cash and Cash Equivalents	2,949,006
Balance of Cash and Cash Equivalents:	
Beginning of Period	1,314,536
End of Period	\$ 4,263,542

The cash provided by operating activities is the net amount of rents collected from the Township offset by the Authority's operating costs and construction costs. The cash provided by financing activities is the net effect of the new debt sold and interest paid to the Township. The cash provided by investing activities is the interest income from cash accounts, and the return of escrowed funds that were no longer required to meet the Authority's obligations.

**EAST LAMPETER SEWER AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Nine Months Ended December 31, 2014**

**CAPITAL ASSETS AND LONG-TERM DEBT**

*Capital Assets*

East Lampeter Sewer Authority (ELSA) maintains nine pumping stations, four metering pits, and the sewer main lines throughout a portion of the township. The wastewater treatment plant is owned and operated by the City of Lancaster.

East Lampeter Sewer Authority has recommended the following projects for the Township sewer system.

<u>Project</u>	<u>Cost to Complete</u>
Infiltration and Inflow program – Investigations	\$ 112,667
Infiltration and Inflow program – Manhole repairs	147,473
Infiltration and Inflow program – Line Repairs	45,233
Cedar Acres Sewer	40,262
Route 30 Sanitary Sewer Rehabilitation Project	2,214,055
Grinder Pumps	30,000
Project Administration	27,026
Miscellaneous	<u>593</u>
 Total East Lampeter Sewer Authority recommended projects	 \$ <u>2,617,309</u>

The City pays the capital costs of the waste water treatment plant which are divided between East Lampeter Sewer Authority (ELSA), Lancaster Area Sewer Authority, Leola Sewer Authority, Suburban Lancaster Sewer Authority and the City of Lancaster.

Lancaster City is proposing the following projects for the main sewer plant and city pumping stations used by the township for 2015.

<u>Project</u>	<u>ELSA share of Cost to Complete</u>
Wastewater Treatment Plant Control & BNR improvements	\$ 894,008
Wastewater Treatment Plant Clarifying upgrades	597,200
Wastewater Treatment Plant Electric Service Upgrades	238,880
Wastewater Treatment Plant Chlorine Scrubber	69,425
Wastewater Treatment Plant South Train Screening Improvements	194,090
Wastewater Treatment Plant Expansion Evaluation /Act 537 Plan	29,860
Chlorine Building MCC Upgrade	29,860
Wastewater Treatment Plant - Special Projects/Emergency Repairs	<u>74,650</u>
 Total ELSA Share of Lancaster City Projects	 \$ <u>2,127,973</u>

**EAST LAMPETER SEWER AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Nine Months Ended December 31, 2014**

*Long-term Debt*

The costs of improvements to the sewer system are financed through the East Lampeter Sewer Authority. The debt service obligation is met through lease rentals received from sewer operations. During 2010, a Guaranteed Sewer Revenue Note was authorized with a maximum principal amount of \$6 million. The entire \$6,000,000 was drawn down in 2012. In 2014, the Authority issued Guaranteed Sewer Revenues bonds in the amount of \$8.9 million. These funds were used as shown below.

\$6.1 million to redeem the remaining 2009 bonds  
 \$0.1 million to pay interest due on the 2009 bonds  
 \$2.7 million reserved for future construction costs.

The total balance of all debt owed as of December 31, 2014, is \$13.7 million. The payments from sewer operations during the nine months ended December 31, 2014, were sufficient to meet the debt service requirement. Payments received from or paid directly by East Lampeter Township totaled \$913 thousand: principal \$820 thousand, interest of \$78 thousand, and administrative fees of \$15 thousand. Future principal payments are shown below.

	12/31/14	3/31/14
Current Portion of Long-Term Debt	\$ 925,000	\$ 950,000
Long-Term Debt	<u>12,739,500</u>	<u>10,689,500</u>
Total Debt	<u>\$ 13,664,500</u>	<u>\$ 11,639,500</u>

East Lampeter Township has covenanted to annually appropriate sums sufficient to meet the Authority's debt service if the revenues from sewer operations or other monies of the Authority are not sufficient.

**ECONOMIC FACTORS**

Growth in the Authority's service area is projected to remain at its current pace. This growth will continue to create new demands on the sewer system and may require additional capital facilities. Federal and State mandates to protect the Chesapeake Bay will have a significant impact on future costs. Extensive and costly renovations of the sewer plant will be required in order to comply with these mandates. These demands have been anticipated in the Authority's long-range financial plans.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to: Jeanne L. Glick CPA, Finance Director, East Lampeter Township, 2250 Old Philadelphia Pike, Lancaster, PA 17602.

**EAST LAMPETER SEWER AUTHORITY**  
**Statement of Net Position - Modified Cash Basis**  
**December 31, 2014**

**ASSETS**

	<u>2014</u>
<b>Current Assets:</b>	
Cash Funds, Treasurer	\$ 5,318
<b>Total Current Assets</b>	5,318
<b>Restricted Assets - Investment Funds, at Cost, Trustee, Fulton Bank</b>	
Sinking Fund	51
Construction Funds	4,228,164
Administrative Expense Fund	30,003
Debt Service Funds	1
Debt Service Reserve Fund	5
<b>Total Restricted Assets - Investments, Trustee</b>	4,258,224
<b>Restricted Assets - City of Lancaster Escrow Agreements</b>	1,978,042
<b>TOTAL ASSETS</b>	<u>\$ 6,241,584</u>

**NET POSITION**

Restricted to Payment of Administrative Expenses	\$ 35,321
Restricted to Payment of Capital Projects and Debt Service	6,206,263
<b>TOTAL NET POSITION</b>	<u>\$ 6,241,584</u>

See Accompanying Notes

**EAST LAMPETER SEWER AUTHORITY**  
**Statement of Revenues, Expenditures**  
**and Changes in Net Position - Modified Cash Basis**  
**Nine Months Ended December 31, 2014**

	<u>2014</u>
<b>Operating Revenues</b>	
Rental Income, East Lampeter Township	\$ 669,069
<b>Total Operating Revenues</b>	669,069
<b>Operating Expenditures</b>	
Construction Costs	375,756
Authority Operating Expense	36,154
<b>Total Operating Expenditures</b>	411,910
<b>Operating Income (Loss)</b>	257,159
<b>Non-Operating Revenues (Expenses)</b>	
Interest and Investment Income	357
Bond Proceeds	9,014,975
Interest Income Paid to Township	(480)
Interest Expense	(255,339)
Bond Issuance Costs	(104,348)
Principal Payments on Long Term Debt	(620,000)
Refunding of Long Term Debt	(6,065,000)
<b>Total Non-Operating Revenues (Expenses)</b>	1,970,165
<b>CHANGE IN NET POSITION</b>	2,227,324
<b>NET POSITION - APRIL 1 - Restated</b>	4,014,260
<b>NET POSITION - DECEMBER 31</b>	<u>\$ 6,241,584</u>

See Accompanying Notes

**EAST LAMPETER SEWER AUTHORITY**  
**Statement of Cash Flows - Modified Cash Basis**  
**Nine Months Ended December 31, 2014**

	<u>2014</u>
<b>Cash Flows From Operating Activities</b>	
Receipts from Lessee, Principal Portion	\$ 620,000
Receipts from Lessee, Interest Portion	34,069
Receipts from Lessee, Authority Expenses	15,000
Construction Costs	(31,992)
Payments for Authority Expenses	<u>(36,154)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>600,923</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Proceeds from Long-Term Debt	9,014,975
Principal Payments on Long-Term Debt	(6,685,000)
Interest Payments on Long-Term Debt	(255,339)
Interest Payments to Township	(480)
Bond Issuance Costs	<u>(104,348)</u>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>1,969,808</b>
<b>Cash Flows From Investing Activities</b>	
Interest and Investment Income	185
Return of Investment in Escrow Agreements	<u>378,090</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<b><u>378,275</u></b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,949,006</b>
<b>Balances - Beginning of Year</b>	<b><u>1,314,536</u></b>
<b>Balances - End of Year</b>	<b><u><u>\$ 4,263,542</u></u></b>

**EAST LAMPETER SEWER AUTHORITY**  
**Statement of Cash Flows -Modified Cash Basis - Continued**  
**Nine Months Ended December 31, 2014**

	<u>2014</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>	
<b>Provided (Used) by Operating Activities:</b>	
Operating Income (Loss)	\$ 257,159
Add: Construction Costs Paid by Escrow	<u>343,764</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 600,923</u></u>
<b>Supplemental Disclosure of Non-Cash Financing and Investing Activities</b>	
Interest Income in Escrow Accounts	\$ 172
Construction Costs Paid Thru Escrow Agreements	343,764
Satisfaction of Debt Obligations by Direct Payments of Lessee:	
Principal Payments on Long-Term Debt	200,000
Interest Payments on Long-Term Debt	44,033

See Accompanying Notes

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements**  
**December 31, 2014**

**Summary of Significant Accounting Policies of the Authority**

Change in Presentation

Effective, April 1, 2014, the Authority changed its measurement focus and basis of accounting to the modified cash basis of accounting. This change was made at the request of East Lampeter Township. As noted, below, the Authority is a component unit of the Township for financial reporting purposes. Accounting principles generally accepted in the United States of America require a primary government's financial statements to include the financial data for its legally separate component units. In order that the Township may comply with this requirement in future financial statements, it is necessary that both entities report on the same basis of accounting. By changing the Authority's basis of accounting, there will be consistency between Township and the Authority basis of accounting, thus reducing the possibility that data will be misleading.

Significant Accounting Policies

As discussed further under Measurement Focus and Basis of Accounting, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

Definition of the Reporting Entity

East Lampeter Sewer Authority is a corporate body created pursuant to an ordinance of the Board of Supervisors of the East Lampeter Township under the Municipal Authorities Act.

The Authority is a financing authority leasing its facilities and sewer system exclusively to the Township which operates and maintains the sewer system and pays certain minimum net rentals to the Authority.

The East Lampeter Sewer Authority's governing board consists of five members appointed by the Township's Board of Supervisors. The Township has guaranteed payment of the Sewer Revenue Bonds and Notes. Due to the Authority's potential to impose a specific financial burden on the Township, it is considered to be a component unit for financial reporting purposes.

Basis of Presentation, Measurement Focus and Accounting

The Authority applies the provision of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Summary of Significant Accounting Policies of the Authority (cont'd)**

**Measurement Focus**

The financial statements have been prepared using the economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position and net financial position. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

The Authority applies the provision of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements: issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The accounts of the Authority are organized on the basis of the proprietary fund type, specifically an enterprise fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The activities of each proprietary fund are summarized by providing a separate set of self-balancing accounts which include its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses.

The Authority considers operating revenues and expenses in the statement of revenues, expenses, and changes in net position – modified cash basis to be those revenues and expenses that result from exchange transactions or other activities that are connected directly to the Authority's primary financing functions. Exchange transactions include interest income on lease rental receivables and interest expense on the related debt obligation. Activities directly related to the Authority's function include capital project costs and reimbursements of costs. Non-operating revenues and expenses consist of those revenues and expenses that are related to activities not directly connected to the Authority's primary financial function such as sale of Authority assets.

**Basis of Accounting**

The Authority operates an enterprise activity and presents its financial statements on the modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statement of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include restricted assets – City of Lancaster Escrow Agreements as discussed in the following paragraph.

Although not held by the Authority, the Authority records its escrow agreements as restricted assets of the Authority until the Authority and other participants in the agreements authorize the withdrawal of said monies.

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Summary of Significant Accounting Policies of the Authority (cont'd)**

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivable) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities, including long-term debt) are not recorded in these financial statements. In addition, other economic assets, deferred outflows of resources, liabilities and deferred inflows of resources that do not arise from a cash transaction or event are not reported.

**Net Position Classifications**

Governmental accounting standards provide that net position be classified and displayed in components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use of either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amounts of assets, deferred outflows of resources, liabilities and deferred inflows or resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The Authority presents net position accordingly within the limitations of the modified cash basis of accounting.

When an expense is incurred for purposes for which there are restricted and unrestricted net position available, it is the Authority's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

**Accounting Estimates**

The preparation of financial statements in conformity with professional standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include all cash and investments with original maturities of three months or less, except for those monies which are held by an escrow agent in accordance with escrow agreements. For cash flow reporting purposes all monies held by an escrow agent have been presented as investments.

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Summary of Significant Accounting Policies of the Authority (cont'd)**

**Investments**

Investments are reported at fair market value.

**Leases**

The Authority accounts for its leases with the Township using the direct financing method.

**Long-Term Debt**

Long-Term debt arising from cash basis transactions of the Authority is not reported as liabilities in the financial statements. Debt proceeds, payment of principal and interest are reported as non-operating revenues.

**Cash and Investments**

In accordance with the Municipal Authorities Act, the Authority is authorized to designate one or more banks or bank and trust companies as a depository or depositories for its funds. If funds are fully insured by the FDIC, the Authority shall not require any additional bond, insurance or security to cover the amount of such deposits so insured. If these funds are not fully insured by the FDIC, the funds shall be continuously secured by a pledge of direct obligations of the United States of America, of the Commonwealth or of the municipality creating the Authority having an aggregate market value, exclusive of accrued interest, at all times at least equal to the balance on deposit.

Per contractual and legal requirements contained in the Trust Indenture dated April 15, 1985, First Supplemental Trust Indenture dated July 12, 1990, Second Supplemental Indenture dated May 15, 1994, Third Supplemental Trust Indenture dated October 15, 2003, Fourth Supplemental Trust Indenture dated August 15, 2009, Fifth Supplemental Trust Indenture dated October 26, 2010, and Sixth Supplemental Trust Indenture dated August 13, 2014, all monies held by the Trustee will be considered Trust Funds and shall not be subject to lien or attachment by any creditor or the Authority.

The Trustee is permitted to invest in direct obligations of the United States of America, agency obligations, direct obligations of any state of the United States of America, commercial paper, savings or time deposits or certificates of deposit provided such deposits are fully insured, investments in a money-market fund, and repurchase agreements meeting certain requirements.

The Authority has entered into escrow agreements with the City of Lancaster and other neighboring municipalities. Per contractual requirements of the escrow agreements, all monies held by the Escrow Agent are earmarked for specified projects. Monies may only be withdrawn upon receipt of a requisition and certificate authorized by all participants.

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Cash and Investments (cont'd)**

Cash and investments as of December 31, 2014 are classified in the accompanying financial statements as follows:

	2014
Statement of Net Position:	
Cash Funds, Treasurer	\$ 5,318
Restricted Assets, Investments, Trustee	4,258,224
Restricted Assets, City of Lancaster Escrow Agreement	1,978,042
Total Cash and Investments	\$ 6,241,584

Cash and investments as of December 31, 2014 consist of the following:

	2014
Deposits with Financial Institutions	
Regular	\$ 5,318
Restricted Escrow Agreements	1,978,042
Investments	
Money Market Funds	
GS Financial Square	
Treasury Obligation Fund	4,258,224
Total Cash and Investments	\$ 6,241,584

**Credit Risk and Interest Rate Risk**

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations to the holder of the investments.

The Municipal Authorities Act requires the Authority to invest funds consistent with "sound business practice": investments are made with discretion and intelligence, to seek reasonable income, preserve capital, and in general avoid speculative investments. The Authority has no investment policy that would further limit its investments choices.

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority is required by trust indentures to deposit receipts and revenues with the trustee, Fulton Financial Advisors. The trust indentures limit investment maturities.

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Cash and Investments (cont'd)**

Following are the credit ratings and maturity date for each investment type as of December 31, 2014:

Investment Type	Amount	Exempt from Disclosure	Ratings as of	Maturity Date
			Year End	
			AAA	
Money Market Funds	\$ 4,258,224	\$ 0	\$ 4,258,224	52 days average
	<u>\$ 4,258,224</u>	<u>\$ 0</u>	<u>\$ 4,258,224</u>	

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits from an outside party. For investments, it is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Aside from guidelines outlined in the trust indentures, the Authority has no investment policy that would further limit the exposure to custodial credit risk for deposits or investments than that required by the Municipal Authorities Act.

As of December 31, 2014, the Authority's regular deposits with financial institutions were not in excess of federal depository insurance limits.

GS Financial Square Treasury Obligation Fund is a money market fund invested solely in U.S. Government Securities. All investments are held in trust for the Authority by a local bank. Investments in the money market funds are stated at cost which approximates market value. These investments have maturities of less than three months and are considered cash equivalents.

As of December 31, 2014, the Authority's restricted deposits related to the City of Lancaster Escrow Agreements are in excess of federal depository insurance limits and were collateralized with securities held by the pledging financial institution or held by the pledging financial institution's trust department or agent but not in the government's name.

Cash and cash equivalents at December 31, consisted of the following:

	2014
Cash Funds, Treasurer	\$ 5,318
Investments	<u>4,258,224</u>
Total	4,263,542
Less: Investments that are not Cash Equivalents	<u>0</u>
	<u>\$ 4,263,542</u>

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Restricted Assets – City of Lancaster Escrow Agreements**

The Authority has entered into various agreements with the City of Lancaster and other neighboring municipalities. As a participant in the agreements, the Authority is required to deposit its cost allocation for the respective projects. The monies are deposited in escrow accounts maintained by the City of Lancaster. These funds are held by an escrow agent on behalf of the City of Lancaster. Funds may only be withdrawn upon authorization of all participants in the escrow agreement. Escrow agreements consist of the following:

A. Phase I – Process and Hydraulic Capacity Evaluation

On October 30, 2008, an agreement was established to provide for an evaluation of the hydraulic capacity of the wastewater treatment plant. Deposits of \$15,975 were required from the Authority for this project.

B. Grit Removal Screening Facilities

On January 22, 2010, an agreement was established to provide grit removal and screening for various sewer facilities. Deposits of \$1,061,391 were required from the Authority for this project.

C. North and Force Main Surge

On December 5, 2011, an agreement was established to provide for upgrades and improvements to the North and Force Main surge system. Deposits of \$2,352,968 were required from the Authority for this project.

D. Oxygen Control and BNR System Improvements

On May 31, 2013, an agreement was established to provide for the design of upgrades and improvements to the wastewater treatment plant's nutrient removal system. Deposits of \$71,813 were required from the Authority for this project.

E. Special Project, Emergency Repairs, Replacements and Improvements

On January 27, 2015, an agreement was established to provide for special projects and emergency repairs, replacements and improvements needed to keep the wastewater treatment plant functional. Deposits of \$74,650 are required from the Authority for this project.

Balances held in escrow as of December 31 are as follows:

See Notes Above	2014
A	\$ 822
B	37,567
C	1,893,511
D	46,142
E	0
	<u>\$ 1,978,042</u>

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Lease Agreement**

The Authority leases the sewer system to the Township in accordance with a Sixth Supplemental Agreement of Lease, dated as of August 13, 2014, to an Agreement of Lease dated as of April 15, 1985, as amended and supplemented by a Fifth Supplemental Agreement of Lease, dated as of October 26, 2010, a Fourth Supplemental Agreement of Lease, dated as of August 15, 2009, a Third Supplemental Agreement of Lease, dated as of October 15, 2003, a Second Supplemental Agreement of Lease, dated May 15, 1994 and a First Supplemental Agreement of Lease, dated July 12, 1990 (the Agreement of Lease). The Agreement of Lease expires October 1, 2027.

As stipulated in the Agreement of Lease, the Township shall pay a minimum net rental.

Approximate lease payments to be received are as follows:

	On or before April 1	On or before October 1
2015	\$ 169,193	\$ 1,094,193
2016	160,384	1,105,384
2017	147,735	1,127,735
2018	130,918	1,145,918
2019	113,462	1,163,462
2020 - 2024	419,893	6,464,393
2025 - 2027	66,048	2,771,048
	1,207,633	14,872,133
Less: Interest	1,207,633	1,207,633
Principal Portion of Lease Payments	\$ 0	\$ 13,664,500

**Long-Term Debt**

A schedule of long-term debt activity for the short year ending December 31, 2014 is shown below:

	Balance 4/1/2014	New Debt Issued	Debt Retired	Balance 12/31/2014	Due Within One Year
Guaranteed Sewer Revenue					
Notes - Series of 2010	\$ 5,574,500	\$ 0	\$ 200,000	\$ 5,374,500	\$ 210,000
Guaranteed Sewer					
Revenue Bonds					
Series of 2009	6,065,000	0	6,065,000	0	0
Series of 2014	0	8,910,000	620,000	8,290,000	715,000
Total Bonds and Notes	\$ 11,639,500	\$ 8,910,000	\$ 6,885,000	\$ 13,664,500	\$ 925,000

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Long-Term Debt (cont'd)**

**Guaranteed Sewer Revenue Bonds, Series of 2014**

On August 13, 2014, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2014 in the amount of \$8,910,000, secured by the Sixth Supplemental Trust Indenture dated August 13, 2014, to Trust Indenture dated April 15, 1985. This bond issuance consists of current interest bonds (taxable) in the amount of \$8,910,000. Principal maturities occur on October 1, 2014 through 2027. Interest rates vary from 2.00% to 4.00% depending on date of maturity. This bond issue was used to refinance the Guaranteed Sewer Revenue Bonds, Series of 2009 and provide additional monies for capital additions.

**Guaranteed Sewer Revenue Note – Series of 2010**

On October 26, 2010, the Township obtained a Line of Credit from PNC Bank with a maximum aggregate principal amount of \$6,000,000. It is secured by the Fifth Supplemental Agreement of Lease dated October 26, 2010. Principal maturities occur on October 1, 2011 through 2023. Interest rates vary monthly and are payable semi-annually beginning April 1, 2011. Interest payments are subject to a maximum interest rate of 4.00% and may continue through October 1, 2023. The debt was incurred to provide for additional monies for capital additions.

Interest rate assessed in 2014 was 1.58%.

**Guaranteed Sewer Revenue Bonds, Series of 2009**

On August 17, 2009, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2009 in the amount of \$7,690,000, secured by the Fourth Supplemental Trust Indenture dated August 15, 2009, to Trust Indenture dated April 15, 1985. This bond issuance consists of current interest bonds (taxable) in the amount of \$7,690,000. Principal maturities occur on October 1, 2010 through 2027. Interest rates vary from 2.00% to 4.50% depending on date of maturity. This bond issue was used to refinance the Guaranteed Sewer Revenue Bonds, Series of 2003 and provide additional monies for capital additions. These bonds were refunded on August 13, 2014.

Debt service requirements are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 925,000	\$ 338,386	\$ 1,263,386
2016	945,000	320,768	1,265,768
2017	980,000	295,471	1,275,471
2018	1,015,000	261,837	1,276,837
2019	1,050,000	226,924	1,276,924
2020 - 2024	6,044,500	839,787	6,884,287
2025 - 2027	2,705,000	132,094	2,837,094
Total	<u>13,664,500</u>	<u>2,415,267</u>	<u>16,079,767</u>

The Township unconditionally guarantees timely payment of the principal and interest of the outstanding bonds and notes pledging its full faith, credit, and taxing power.

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Extinguishment of Debt – 2009 Bonds**

On August 13, 2014, the Authority issued \$8,910,000 in sewer revenue bonds with an average interest rate of 2.77%. The note is to refund \$6,065,000 of outstanding Series of 2009 Bonds with an average interest rate of 3.63% and provide additional monies for capital additions. The Authority has delivered the sum of \$5,503,969 of sale proceeds plus debt service reserve funds of \$770,407 to call the 2009 Bonds.

The reacquisition price of the current refunding was equivalent to the face amount of the old bonds. The Authority completed the current refunding to reduce its total debt service payments over the next nine years by \$384,766 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$272,405.

**Front Foot Assessments**

When constructing additional sewer lines, the Township and Authority assesses a portion of the construction costs against the properties benefited. The Township grants extended payment terms with interest at 8%.

When front foot assessments are collected, they are transferred by the Township to the Trustee, and act in lieu of the minimum rental payment required by the Township.

**Additional Contribution Assessment**

By virtue of an inter-municipal sewage treatment and sewer plant construction contract agreement between East Lampeter Township and its sewer authority, and the City of Lancaster and its sewer authority, dated August 1, 1983, an additional assessment has been made by the Authority to East Lampeter Sewer Authority in the amount of \$1,102,000 for the completion of the sewer plant construction contract. This assessment was made during January 1991 with payment due April 1, 1991, accruing interest at the rate of 6.638% on the unpaid principal balance.

Although the Authority has not denied its responsibility for payment of this assessment, it has questioned certain aspects of the assessment. Responding to a formal request made in March 1992 by the City of Lancaster Sewer Authority for payment of the above assessment, the Authority authorized on March 11, 1992, a partial payment of \$1,036,512. When clarification is made by the City of Lancaster, an additional payment will be made, if required. By letter dated January 27, 1999, from the City's solicitor, the City claims the Authority owes \$199,448 on this assessment including interest. No liability has been booked for this additional payment by the Authority in the attached financial statements.

On November 22, 1994 the City of Lancaster and its sewer authority requested an additional capital contribution assessment in the amount of \$1,071,179, bearing interest if not paid timely. East Lampeter Sewer Authority disputes both the validity and the amount of this assessment. By letter received January 27, 1999 the City claims East Lampeter Sewer Authority owes \$1,367,233 on this assessment including interest. No liability has been booked in the attached financial statements by the Authority for this assessment and the Authority disputes it owes the above sums.

The City and East Lampeter Sewer Authority with other local municipalities have employed various means to settle this issue including mediation, non-binding arbitration and direct meetings and have not been able to resolve the assessment amounts.

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Additional Contribution Assessment (cont'd)**

As of December 31, 2014, the City has not updated the amount of these claims.

During the years of 2002 and 2003, the City of Lancaster assessed the Authority annual contributions of \$35,172 and \$35,197, respectively, on 30 year bonds issued in 1971. No liability has been booked by the Authority in the attached financial statements. Since the original indebtedness expired in 2001, the Authority and the Township question the validity of these assessments.

The sewage treatment agreement also provides that the Township will pay quarterly sewage treatment charges based on their actual usage. Due to a controversy over the method of allocating sewage treatment costs, the Township has only paid a portion of the bills received in 1992 through 2014. In 2012, the City of Lancaster has requested arbitration on this matter. In 2015, an award of \$2,433,543 was made in favor of the City for periods through 2012. Underpayments for 2013 through current remain unresolved. As a component unit of the Township, the impact of this decision on the Authority has not been determined.

**Developer Agreement**

Recognizing that the pumping station available to service the development proposed by a particular developer is inadequate, the Authority entered into an agreement with the developer. The agreement, dated October 2009, provides that the developer, as part of its subdivision and land development process, will construct a new pumping station of a size and quality that is acceptable to the Authority and Township. The agreement states that the pumping station is to be completed by October 2012. To insure the future construction of the pump station, the developer provided an escrow payment of \$41,800, a mortgage lien in favor of the Authority and a deed containing a covenant running with the land. The escrow deposit was received in 2011 and is being held by the Township on behalf of the Authority. As of December 31, 2014, an escrow in the amount of \$19,587 remains. The project is currently under construction.

**Construction Commitments**

On July 9, 2014, the Authority awarded a construction contract in the amount of \$1,781,000. This award is subject to receipt of appropriate documentation and the review of the Authority's engineer and solicitor.

**Subsequent Events**

Management has evaluated events through July 6, 2015, the date the financial statements were available to be issued.

**Fiscal Year Change**

Effective April 1, 2014, the Authority changed from a fiscal year end of March 31 to December 31. A nine month transition period from April 1, 2014 through December 31, 2014 precedes the start of the new calendar year cycle.

**EAST LAMPETER SEWER AUTHORITY**  
**Notes to Financial Statements - Continued**  
**December 31, 2014**

**Restatement Due to Change in Presentation**

As noted previously, the Authority changed its basis of accounting to the modified cash basis of accounting. This change resulted in the elimination of lease rental receivables and construction in progress totaling \$18,170,846 from the statement of net position. In addition, all liabilities totaling \$11,976,012 and deferred inflows of resources totaling \$10,252,881 have been eliminated from the statement of net position. These changes have resulted in a total increase in net position of \$4,058,047, or a restated balance of \$4,014,260.