

EAST LAMPETER SEWER AUTHORITY
Financial Statements
Year Ended December 31, 2015

WEINHOLD, NICKEL & COMPANY, LLP
Certified Public Accountants
Reamstown, PA 17567

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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 and for the year ended December 31, 2015, 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, 2015, and the changes in financial positions and cash flows for the year then ended, in conformity with the basis of accounting as described in the notes to the financial statements.

Other Matters

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.

Management's discussion and analysis 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

June 7, 2016

Reamstown, Pennsylvania

EAST LAMPETER SEWER AUTHORITY

Management's Discussion and Analysis

For the Year Ended December 31, 2015

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 year ended December 31, 2015. 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.

FINANCIAL HIGHLIGHTS

- The Authority has met all of its required debt service payments during the year ended December 31, 2015.
- Lancaster City held escrow accounts for seven (7) sewer plant improvement projects. During the year ended December 31, 2015, East Lampeter Sewer Authority's share of construction costs from these accounts totaled \$648 thousand.
- During the year ended December 31, 2015, the Authority paid \$1.6 million for a major rehabilitation of the sewer distribution system in the area of US 30.

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.

EAST LAMPETER SEWER AUTHORITY

Management's Discussion and Analysis

For the Year Ended December 31, 2015

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, 2015, there was a total of \$ 2.4 million held by the Trustee. These funds are designated for the following purposes:

Available for construction projects	\$ 2,385,093
Available for Administrative expense	15,005
Other	58

Escrow Agreements with Lancaster City - During the current fiscal year, construction costs expended from these accounts amounted to \$ 648 thousand. The Authority deposited an additional \$119 thousand into these escrow accounts during 2015. The balance in the escrow accounts as of December 31, 2015 is \$1.45 million.

Total Assets decreased from \$6.24 million to \$3.86 million during 2015, a decrease of 38%.

- **Net Position** is restricted to payment for Capital Projects, Debt Service and Administrative expenses.

EAST LAMPETER SEWER AUTHORITY

Management's Discussion and Analysis

For the Year Ended December 31, 2015

The following table compares the various categories of assets and net position for December 31, 2014 and December 31, 2015.

Table 1

Condensed Statement of Net Position-Modified Cash Basis

	12/31/15	12/31/14	Increase (Decrease)	
			Amount	%
ASSETS				
Cash	\$ 15,782	\$ 5,318	\$ 10,464	197%
Investment Funds	2,400,156	4,258,224	(1,858,068)	(44%)
City of Lancaster Escrow Agreements	<u>1,448,987</u>	<u>1,978,042</u>	<u>(529,055)</u>	<u>(27%)</u>
Total Assets	<u>\$3,864,925</u>	<u>\$6,241,584</u>	<u>(\$2,376,659)</u>	<u>(38%)</u>
NET POSITION				
Restricted to Payment of Administrative Expenses	\$ 30,787	\$ 35,321	(\$ 4,534)	(13%)
Restricted to Payment of Capital Projects and Debt Service	<u>3,834,138</u>	<u>6,206,263</u>	<u>(2,372,125)</u>	<u>(38%)</u>
Total Liabilities	<u>\$3,864,925</u>	<u>\$6,241,584</u>	<u>(\$2,376,659)</u>	<u>(38%)</u>

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 presents the revenues and expenditures for the year ended December 31, 2015.

Table 2

**Condensed Statement of
Revenues, Expenditures and Changes in Net Position
Modified Cash Basis
Year Ended 12/31/15**

Operating Revenues	\$ 1,294,120
Operating Expenditures	<u>2,407,059</u>
Operating Income (Loss)	(1,112,939)
Interest and Investment Income	401
Interest on Long Term Debt	(339,121)
Principal Payments on Long Term Debt	<u>(925,000)</u>
Change in Net Position	(2,376,659)
Total Net Position Beginning	6,241,584
Total Net Position Ending	\$3,864,925

- **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 are to cover the interest and principal payments on the revenue bonds as follows:

Administrative Fees	30,000
Interest Payments	339,120
Principal Payments	<u>925,000</u>
Total Operating Revenues	\$ 1,294,120

EAST LAMPETER SEWER AUTHORITY

Management's Discussion and Analysis

For the Year Ended December 31, 2015

- **Operating expenditures** include authority administrative expenses and construction costs. The detail of these expenses for 2015 is shown below.

Construction Costs		\$ 2,365,286
Route 30 Rehabilitation	\$ 1,581,994	
Tennyson Interceptor	106,284	
Treatment Plant Improvements	647,930	
Other	29,078	
Authority Expenditures		<u>41,773</u>
Total Operating Expenditures		<u>\$ 2,407,059</u>

Construction costs increased from the same period in 2014 by \$1.8 million. Authority share of improvement cost to the sewer plant increased by \$0.2 million, the cost of Route 30 rehabilitation increased by \$1.5 million and the new Tennyson Interceptor project incurred \$0.1 million. Authority operating expenditures decreased by 13% over the same period.

- **Non-operating revenues (expenses)** consist of interest income, interest paid on long term debt, and scheduled principal payments on long term debt.
- **Change in Net Position** - the operating loss and the current year debt obligation generated a decrease in the Net Position. As the bond proceeds are expended, Net Position will continue to 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. The following table compares the source and use of cash and the change in cash balance for the year ended December 31, 2015.

Table 3

Condensed Statement of Cash Flows	
For the Year Ended	
12/31/15	
Net Cash Provided (Used) by Operating Activities	\$ (465,009)
Net Cash Provided (Used) by Financing Activities	(1,264,121)
Net Cash Provided (Used) by Investing Activities	<u>(118,474)</u>
Net Decrease in Cash and Cash Equivalents	(\$1,847,604)
Balance of Cash and Cash Equivalents:	
Beginning of Period	\$4,263,542
End of Period	\$2,415,938

The cash used by operating activities is the net amount of rents collected from the Township offset by the Authority's operating and construction costs. The cash used by financing activities is the principal and interest paid on long term debt. The cash provided by investing activities is the interest income from cash accounts, and the required increased deposits by the Authority to the escrow accounts held by Lancaster City for ongoing projects at the treatment plant.

EAST LAMPETER SEWER AUTHORITY

Management's Discussion and Analysis
For the Year Ended December 31, 2015

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>
Cedar Acres new meter pit	\$ 40,262
Route 30 Sanitary Sewer Rehabilitation Project	631,949
Tennyson Interceptor	170,214
Project Administration	<u>32,104</u>
Total East Lampeter Sewer Authority recommended projects	<u>\$874,529</u>

Lancaster 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 2016.

<u>Project</u>	<u>ELSA share of Cost to Complete</u>
Wastewater Treatment Plant Control & BNR improvements	\$ 926,854
Wastewater Treatment Plant Clarifying upgrades	783,825
Wastewater Treatment Plant Electric Service Upgrades	227,683
Wastewater Treatment Plant Chlorine Scrubber	69,425
Wastewater Treatment Plant Sludge Storage Tank Improvements	323,981
Wastewater Treatment Plant Expansion Evaluation /Act 537 Plan	29,860
Chlorine Building MCC Upgrade	29,860
Wastewater Treatment Plant Dewatering Biofilter media replacement	<u>35,832</u>
Total ELSA Share of Lancaster City Projects	<u>\$2,427,320</u>

EAST LAMPETER SEWER AUTHORITY

**Management’s Discussion and Analysis
For the Year Ended December 31, 2015**

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 million 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
\$0.1million 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, 2015, is \$12.7 million. The payments from sewer operations during the year ended December 31, 2015, were sufficient to meet the debt service requirement. Payments received from or paid directly by East Lampeter Township totaled \$1.3 million: principal \$925 thousand, interest of \$339 thousand, and administrative fees of \$30 thousand. Future principal payments are shown below.

	<u>12/31/15</u>	<u>12/31/2014</u>
Current Portion of Long-Term Debt	945,000	925,000
Long-Term Debt	<u>11,794,500</u>	<u>12,739,500</u>
Total Debt	<u>\$12,739,500</u>	<u>\$13,664,500</u>

Additional borrowing is anticipated in 2016. 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, and Lancaster, PA 17602.

EAST LAMPETER SEWER AUTHORITY
Statement of Net Position - Modified Cash Basis
December 31, 2015

ASSETS

	<u>2015</u>
Current Assets:	
Cash Funds, Treasurer	\$ 15,782
Total Current Assets	15,782
Restricted Assets - Investment Funds, at Cost, Trustee, Fulton Bank	
Construction Funds	2,385,093
Administrative Expense Fund	15,005
Debt Service Funds	58
Total Restricted Assets - Investments, Trustee	2,400,156
Restricted Assets - City of Lancaster Escrow Agreements	1,448,987
TOTAL ASSETS	<u><u>\$ 3,864,925</u></u>

NET POSITION

Restricted to Payment of Administrative Expenses	\$ 30,787
Restricted to Payment of Capital Projects and Debt Service	3,834,138
TOTAL NET POSITION	<u><u>\$ 3,864,925</u></u>

See Accompanying Notes

EAST LAMPETER SEWER AUTHORITY
Statement of Revenues, Expenditures
and Changes in Net Position - Modified Cash Basis
Year Ended December 31, 2015

	<u>2015</u>
Operating Revenues	
Rental Income, East Lampeter Township	\$ <u>1,294,120</u>
Total Operating Revenues	1,294,120
Operating Expenditures	
Construction Costs	2,365,286
Authority Operating Expense	<u>41,773</u>
Total Operating Expenditures	<u>2,407,059</u>
Operating Income (Loss)	(1,112,939)
Non-Operating Revenues (Expenses)	
Interest and Investment Income	401
Interest Expense	(339,121)
Principal Payments on Long Term Debt	<u>(925,000)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,263,720)</u>
CHANGE IN NET POSITION	(2,376,659)
NET POSITION - JANUARY 1	<u>6,241,584</u>
NET POSITION - DECEMBER 31	<u><u>\$ 3,864,925</u></u>

See Accompanying Notes

EAST LAMPETER SEWER AUTHORITY
Statement of Cash Flows - Modified Cash Basis
Year Ended December 31, 2015

	<u>2015</u>
Cash Flows From Operating Activities	
Receipts from Lessee, Principal Portion	\$ 925,000
Receipts from Lessee, Interest Portion	339,120
Receipts from Lessee, Authority Expenses	30,000
Construction Costs	(1,717,356)
Payments for Authority Expenses	<u>(41,773)</u>
Net Cash Provided (Used) by Operating Activities	(465,009)
Cash Flows from Capital and Related Financing Activities	
Principal Payments on Long-Term Debt	(925,000)
Interest Payments on Long-Term Debt	<u>(339,121)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,264,121)
Cash Flows From Investing Activities	
Interest and Investment Income	220
Investment in Escrow Agreements	(118,694)
Return of Investment in Escrow Agreements	<u>0</u>
Net Cash Provided (Used) by Investing Activities	(118,474)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,847,604)
Balances - Beginning of Year	<u>4,263,542</u>
Balances - End of Year	<u><u>\$ 2,415,938</u></u>

EAST LAMPETER SEWER AUTHORITY
Statement of Cash Flows -Modified Cash Basis - Continued
Year Ended December 31, 2015

2015

Reconciliation of Operating Income (Loss) to Net Cash

Provided (Used) by Operating Activities:

Operating Income (Loss)	\$ (1,112,939)
Add: Construction Costs Paid by Escrow	<u>647,930</u>

Net Cash Provided (Used) by Operating Activities	<u>\$ (465,009)</u>
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Supplemental Disclosure of Non-Cash Financing and Investing Activities

Interest Income in Escrow Accounts	\$ 181
Construction Costs Paid Thru Escrow Agreements	647,930

See Accompanying Notes

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements
December 31, 2015

Summary of Significant Accounting Policies of the Authority

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.

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.

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements - Continued
December 31, 2015

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

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 distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Authority is lease rentals from East Lampeter Township. Operating expenses for the Authority include administrative and construction costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

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.

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements - Continued
December 31, 2015

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

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.

Investments

Investments are reported at cost, which approximates 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.

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements - Continued
December 31, 2015

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.

Cash and investments as of December 31, 2015 are classified in the accompanying financial statements as follows:

	2015
Statement of Net Position:	
Cash Funds, Treasurer	\$ 15,782
Restricted Assets, Investments, Trustee	2,400,156
Restricted Assets, City of Lancaster Escrow Agreement	1,448,987
Total Cash and Investments	\$ 3,864,925

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements - Continued
December 31, 2015

Cash and Investments (cont'd)

Cash and investments as of December 31, 2015 consist of the following:

	2015
Deposits with Financial Institutions	
Regular	\$ 15,782
Restricted Escrow Agreements	1,448,987
Investments	
Money Market Funds	
GS Financial Square	
Treasury Obligation Fund	2,400,156
Total Cash and Investments	\$ 3,864,925

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.

Following are the credit ratings and maturity date for each investment type as of December 31, 2015:

	Amount	Exempt from Disclosure	Ratings as of Year End AAA	Maturity Date
Money Market Funds	\$ 2,400,156	\$ 0	\$ 2,400,156	34 days average
	\$ 2,400,156	\$ 0	\$ 2,400,156	

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements - Continued
December 31, 2015

Cash and Investments (cont'd)

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, 2015, 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, 2015, 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:

	2015
Cash Funds, Treasurer	\$ 15,782
Investments	2,400,156
Total	2,415,938
Less: Investments that are not Cash Equivalents	0
	\$ 2,415,938

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements - Continued
December 31, 2015

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 were required from the Authority for this project.

F. Electrical Service Upgrade

On March 20, 2015, an agreement was established to provide for the evaluation phase of a needed upgrade to the electrical service at the wastewater treatment plant. Deposits of \$11,198 were required from the Authority for this project.

G. Final Clarifier Upgrades

On March 20, 2015, an agreement was established to provide for evaluation and design phase of a needed upgrade to the final clarifiers at the wastewater treatment plant. Deposits of \$32,846 were required from the Authority for this project.

H. Liquid Sludge Storage System Upgrades

On December 17, 2015, an agreement was established to provide for the study and design phase of upgrades to the advanced wastewater treatment plant's liquid sludge storage system. Deposits of \$34,339 are required from the Authority for this project.

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements - Continued
December 31, 2015

Restricted Assets – City of Lancaster Escrow Agreements (cont'd)

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

See Notes Above	2015
A	\$ 822
B	27,093
C	1,325,525
D	2,997
E	59,501
F	6,977
G	26,072
H	0
	\$ 1,448,987

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
2016	\$ 160,900	\$ 1,105,900
2017	148,230	1,128,230
2018	131,390	1,146,390
2019	113,910	1,163,910
2020	104,010	1,199,010
2021 - 2025	357,464	6,611,964
2026 - 2027	25,307	1,425,307
	1,041,211	13,780,711
	1,041,211	1,041,211
Principal Portion of Lease Payments	\$ 0	\$ 12,739,500

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements - Continued
December 31, 2015

Long-Term Debt

A schedule of long-term debt activity for the short year ending December 31, 2015 is shown below:

	<u>Balance 1/1/2015</u>	<u>New Debt Issued</u>	<u>Debt Retired</u>	<u>Balance 12/31/2015</u>	<u>Due Within One Year</u>
Guaranteed Sewer Revenue Notes - Series of 2010	\$ 5,374,500	\$ 0	\$ 210,000	\$ 5,164,500	\$ 215,000
Guaranteed Sewer Revenue Bonds - Series of 2014	<u>8,290,000</u>	<u>0</u>	<u>715,000</u>	<u>7,575,000</u>	<u>730,000</u>
	<u>\$13,664,500</u>	<u>\$ 0</u>	<u>\$ 925,000</u>	<u>\$12,739,500</u>	<u>\$ 945,000</u>

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. 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.

The interest rate assessed in 2015 varied from 1.58% to 1.60%.

Debt service requirements are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 945,000	\$ 321,800	\$ 1,266,800
2017	980,000	296,460	1,276,460
2018	1,015,000	262,780	1,277,780
2019	1,050,000	227,820	1,277,820
2020	1,095,000	208,020	1,303,020
2021 - 2025	6,254,500	714,928	6,969,428
2026 - 2027	<u>1,400,000</u>	<u>50,614</u>	<u>1,450,614</u>
Total	<u>\$ 12,739,500</u>	<u>\$ 2,082,422</u>	<u>\$ 14,821,922</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, 2015

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.

As of December 31, 2015, the City has not updated the amount of these claims.

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 2015. The City of Lancaster requested arbitration on this matter. In 2015, an award of \$2,433,543 was made in favor of the City for periods through 2012. A total of \$283,516 remains unpaid related thereto. Underpayments for 2013 through this report date remain unresolved. As a component unit of the Township, the impact of this decision on the Authority has not been determined.

EAST LAMPETER SEWER AUTHORITY
Notes to Financial Statements - Continued
December 31, 2015

Construction Commitments

As of December 31, 2015, the Authority has approved bids and entered into construction contracts totaling \$1,783,076. At year-end, the amount remaining to be paid on these contracts is \$326,160. Additional construction commitments of \$293,579 were made in 2016.

City of Lancaster Escrow Agreement – Oxygen Control and BNR System Improvements

In May 2016, the Authority approved an amendment to an escrow agreement with the City of Lancaster. Related to upgrades and improvements to the wastewater treatment plant's nutrient removal system, the amendment is effective upon approval of other neighboring municipalities. When finalized, the Authority will be required to deposit an additional \$1,248,148 for this project.

Subsequent Events

Management has evaluated events through June 7, 2016, the date the financial statements were available to be issued.