

**East Lampeter Sewer Authority
(A Component Unit of East
Lampeter Township)**

Financial Statements

Year Ended December 31, 2018
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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EAST LAMPETER SEWER AUTHORITY
(A COMPONENT UNIT OF EAST LAMPETER TOWNSHIP)

YEAR ENDED DECEMBER 31, 2018

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Independent Auditor's Report

Members of the Board East Lampeter Sewer Authority

We have audited the accompanying modified cash basis financial statements (financial statements) of the East Lampeter Sewer Authority (Authority), a component unit of East Lampeter Township, as of and for the year ended December 31, 2018, 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 described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the 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 an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Authority as of December 31, 2018, and the changes in its modified cash basis financial position and its cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes 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 opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The management's discussion and analysis on pages i through iii, which is the responsibility of management, is presented for purposes of additional analysis and is 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.

Maher Duessel

Harrisburg, Pennsylvania
March 2, 2020

EAST LAMPETER SEWER AUTHORITY
Management's Discussion and Analysis
For the Year Ended December 31, 2018

INTRODUCTION

The following discussion and analysis of the financial performance of the East Lampeter Sewer Authority (Authority) provides an overview of the Authority's financial activities for the year ended December 31, 2018. This should be read in conjunction with the financial statements that follow this section.

GENERAL INFORMATION

The Authority is a component unit of East Lampeter Township (Township), a Township of the second class. A component unit is a legally separate organization for which the elected officials of the primary government, the Township, are financially accountable. The Authority is a financing authority operating under the Pennsylvania Municipality 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 the 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 the Township.

FINANCIAL HIGHLIGHTS

- The Authority has met all of its required debt service payments during the year ended December 31, 2018.
- The City of Lancaster (City) held escrow accounts for nine (9) sewer plant improvement projects. During the year ended December 31, 2018, the Authority's share of construction costs from these accounts totaled \$849 thousand.
- The Authority refinanced its Guaranteed Sewer Revenue Note, Series 2010 in November. No additional funds were borrowed. The refinancing allowed the Authority to reduce its overall borrowing costs and to convert the note's variable rate to a fixed rate for the life of the debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management Discussion and Analysis introduces 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. Under the modified cash basis of accounting, certain assets and their

EAST LAMPETER SEWER AUTHORITY
Management's Discussion and Analysis
For the Year Ended December 31, 2018

related revenues and certain liabilities and their related expenses are not recorded in these financial statements. The only assets recorded are cash, 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

The financial statements consist of the *Statement of Net Position, Statement of Revenues, Expenditures, and Changes in Net Position, and Statements of Cash Flows.*

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

- **Assets** are divided into two categories:
 - Cash* is used to pay the current operating expenses of the Authority.
 - Restricted Assets* - funds on deposit with a trustee as required by the bond and note agreements, and funds held by the City for treatment plant improvements.
- **Net Position** is restricted to payment for Capital Projects, Debt Service, and Administrative expenses.

Statement of Revenues, Expenses and Changes in Net Position 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.

- **Operating revenues** consist of the rental payments received from the Township. The operating revenues paid by the Township were in accordance with lease schedules agreed to in the trust indenture to cover the interest and principal payments on the revenue bonds and notes.
- **Operating expenditures** include authority administrative expenses and construction costs.
- **Non-operating revenues (expenses)** consist of interest income, interest and principal payments on long term debt, debt issuance costs, and proceeds from new debt.
- **Change in net position** – operating revenues exceeded operating expenses resulting in a net operating income and current year debt issuances and investment income exceeded the debt payments and refinancing costs resulting in an increase in net position.

Statement of Cash Flows indicates the type of activity related to the Authority's cash receipts and cash payments. The cash provided by operating activities is the net of rents collected from the Township offset by the Authority's operating expenses and construction costs. The cash used by financing activities is the principal and interest paid

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Management's Discussion and Analysis
For the Year Ended December 31, 2018

on long term debt reduced by cash from new bond/note sales. The cash used by investing activities is the amount spent from restricted escrow accounts less interest income.

Notes to the Financial Statements provide additional information essential to a full understanding of the financial statements.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The Authority 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.

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

Long-Term Debt

The costs of improvements to the sewer system are financed through the Authority. The debt service obligation is met through lease rentals received from sewer operations. The 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: Kevin L. Hostetter CPA, Finance Director, East Lampeter Township, 2250 Old Philadelphia Pike, Lancaster, PA 17602.

EAST LAMPETER SEWER AUTHORITY
 (A COMPONENT UNIT OF EAST LAMPETER TOWNSHIP)
 STATEMENT OF NET POSITION - MODIFIED CASH BASIS
 DECEMBER 31, 2018

| Assets | |
|--|---------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 8,300 |
| Total current assets | 8,300 |
| Restricted assets | |
| Restricted cash and cash equivalents | 1,731,201 |
| City of Lancaster escrow agreements | 1,265,878 |
| Total restricted assets | 2,997,079 |
| Total Assets | 3,005,379 |
| Net Position | |
| Restricted to payment of administrative expenses | 39,079 |
| Restricted to payment of capital projects and debt service | 2,966,300 |
| Total Net Position | \$ 3,005,379 |

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

EAST LAMPETER SEWER AUTHORITY
 (A COMPONENT UNIT OF EAST LAMPETER TOWNSHIP)
 STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2018

| | |
|--|----------------|
| Operating Revenues: | |
| Rental income, East Lampeter Township | \$ 1,528,332 |
| Total operating revenues | 1,528,332 |
| Operating Expenses: | |
| Construction costs | 884,758 |
| Authority operating expenses | 30,659 |
| Total operating expenses | 915,417 |
| Operating Income | 612,915 |
| Nonoperating Revenues (Expenses): | |
| Investment income | 6,622 |
| Proceeds from issuance of debt | 6,350,485 |
| Refinancing costs | (51,359) |
| Interest expense | (349,698) |
| Principal payments on long-term debt | (5,649,500) |
| Total nonoperating revenues (expenses) | 306,550 |
| Change in Net Position | 919,465 |
| Net Position: | |
| Beginning of year | 2,085,914 |
| End of year | \$ 3,005,379 |

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

EAST LAMPETER SEWER AUTHORITY
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STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2018

| | |
|---|--------------|
| Cash Flows From Operating Activities: | |
| Receipts from lessee, principal portion | \$ 1,165,000 |
| Receipts from lessee, interest portion | 333,332 |
| Receipts from lessee, Authority expenses | 30,000 |
| Construction costs | (35,782) |
| Payments for Authority operating expenses | (30,659) |
| | <hr/> |
| Net cash provided by operating activities | 1,461,891 |
| | <hr/> |
| Cash Flows From Capital and Related Financing Activities: | |
| Proceeds from issuance of debt | 6,350,485 |
| Refinancing costs | (51,359) |
| Principal payments on long-term debt | (5,649,500) |
| Interest payments on long-term debt | (349,698) |
| | <hr/> |
| Net cash provided by capital and related financing activities | 299,928 |
| | <hr/> |
| Cash Flows From Investing Activities: | |
| Investment income | 6,016 |
| Deposits made to escrow agreements | (68,096) |
| | <hr/> |
| Net cash used in investing activities | (62,080) |
| | <hr/> |
| Net Increase in Cash and Cash Equivalents | 1,699,739 |
| | <hr/> |
| Cash and Cash Equivalents: | |
| Beginning of year | 39,762 |
| | <hr/> |
| End of year | \$ 1,739,501 |
| | <hr/> <hr/> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | |
| Operating income | \$ 612,915 |
| Add: Construction costs paid through escrow agreements | 848,976 |
| | <hr/> |
| Net cash provided by operating activities | \$ 1,461,891 |
| | <hr/> <hr/> |
| Supplemental Disclosure of Non-Cash Financing and Investing Activities: | |
| Interest income earned by escrow accounts | \$ 607 |
| | <hr/> <hr/> |
| Construction costs paid through escrow agreements | \$ 848,976 |
| | <hr/> <hr/> |

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

EAST LAMPETER SEWER AUTHORITY
(A COMPONENT UNIT OF EAST LAMPETER TOWNSHIP)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018

1. 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 (Authority) is a corporate body created pursuant to an ordinance of the Board of Supervisors of the East Lampeter Township (Township) under the Municipality 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 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 blended component unit of the Township for financial reporting purposes.

Measurement Focus and Basis of Accounting

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 and liabilities associated with their

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018

activities are generally reported within the limitations of the modified cash basis of accounting.

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 Authority distinguishes operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenue of the Authority is lease rentals from the 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. Under this basis of accounting, revenues are recorded when received and expenses are recorded when paid, except that the Restricted Assets - City of Lancaster (City) Escrow Agreements are treated 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 revenues and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and 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,

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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 reported in the following components:

1. Restricted. Consists of restricted assets with constraints placed on their use by either external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
2. Unrestricted. Net amount of assets that are not included in the restricted component of net position.

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 amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all deposits 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 Restricted Assets – City Escrow Agreements and not as cash and cash equivalents.

Investments

The investment in the external investment pool is valued at amortized cost, which approximates fair value. All other investments are reported at cost, which approximates fair value.

EAST LAMPETER SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018

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 a liability in the financial statements. Debt proceeds and payment of principal and interest are reported as nonoperating revenues (expenses).

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverage in 2018. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

2. Deposits and Investments

In accordance with the Municipality 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 Federal Deposit Insurance Corporation (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 of Pennsylvania (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 Trust 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, Sixth Supplemental Trust Indenture dated August 13, 2014, Seventh Supplemental Trust Indenture dated July 14, 2016, and Eighth

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Supplemental Trust Indenture dated November 14, 2018 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.

Deposits and investments as of December 31, 2018 consist of the following:

| | |
|--|----------------------------|
| Cash and cash equivalents: | |
| External investment pool | \$ 8,300 |
| Savings - presented as restricted cash and cash equivalents | 1,699,759 |
| Investments: | |
| Money market funds - presented as restricted cash and cash equivalents | <u>31,442</u> |
| Total deposits and investments | <u><u>\$ 1,739,501</u></u> |

The Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity, and yield for Authority funds. Pennsylvania Local Government Investment Trust (PLGIT) was created to meet the investment needs of local governments, school districts, municipal authorities, and other types of governments in the Commonwealth. PLGIT's investment objective is to seek high current income, consistent with preservation of capital and maintenance of liquidity. PLGIT separately issues audited financial statements, which are available to the public. Further information regarding PGLIT and its investment strategies can be found at www.plgit.com. The fair value of the Authority's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth provides oversight for the external investment pool. The Authority is invested in PLGIT-Class shares, in the amount of \$8,297, which require no minimum balance, no minimum initial investment, and have a one-day minimum investment period. Additionally, the Authority is invested in PLGIT/PLUS-Class shares, in the amount of \$3, which requires a minimum balance of \$50,000, a minimum investment period of thirty days, and has a premature withdrawal penalty. At December 31, 2018, PLGIT carried an AAA rating and had an average maturity of less than one year.

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NOTES TO FINANCIAL STATEMENTS

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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 Municipality 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 investment 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 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 trustees, Fulton Financial Advisors.

Following are the credit ratings and maturity date for each investment type as of December 31, 2018:

| Investment Type | Amount | Rating as of Year End AAA | Maturity Date |
|--------------------|-----------|---------------------------------|------------------|
| Money market funds | \$ 31,442 | \$ 31,442 | 31 days average |

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 Municipality Authorities Act.

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As of December 31, 2018, the Authority's regular deposits with financial institutions were in excess of federal depository insurance limits. However, as mentioned at the beginning of this footnote, the entire balance was continuously secured by a pledge of direct US treasury obligations. The excess was collateralized under Act No. 72 (Act) of the Session of Pennsylvania General Assembly in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited 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 fair value. These investments have maturities of less than three months and are considered cash equivalents.

3. Restricted Assets - City Escrow Agreements

The Authority has entered into various agreements with the City 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. These funds are held by an escrow agent on behalf of the City. Funds may only be withdrawn upon authorization of all participants in the escrow agreement. Escrow agreements consist of the following:

1. 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.

On October 17, 2018, the Authority approved an amendment related to development of the short-term and long-term capital needs of the Waste Water Treatment Plant facilities. Additional deposits of \$44,790 were required from the Authority for this portion of the project.

2. North and Force Main Surge - On November 2, 2011, an agreement was established to provide for upgrades and improvements to the North and Force Main surge system. Deposits of \$134,849 were required from the Authority for this project.

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On February 26 and October 28, 2013, the Authority approved amendments related to the final design and the construction of the North and Force Main surge system. Additional deposits of \$14,831 and \$2,216,772, respectively, were required from the Authority for these amendments.

3. 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.

On May 27, 2016, the Authority approved an amendment related to upgrades and improvements to the wastewater treatment plant's nutrient removal system. Additional deposits of \$1,248,148 were required from the Authority for this amendment.

4. Special Project, Emergency Repairs, Replacements, and Improvements - On January 27, 2015, an agreement was established to provide for special projects and emergency repairs, replacement, and improvements needed to keep the wastewater treatment plant functional. Deposits of \$74,650 were required from the Authority for this project.

On July 21, 2017, the Authority approved an amendment to provide additional funding for continual implementation of the project. Additional deposits of \$37,325 were required from the Authority for this amendment.

5. Electrical Service Upgrade - On March 20, 2015, an agreement was established to provide for the evaluation phase of an upgrade to the electrical service at the wastewater treatment plant. Deposits of \$11,198 were required from the Authority for this project.
6. Final Clarifier Upgrades - On March 20, 2015, an agreement was established to provide for the evaluation and design phase of upgrades to the North and South Final clarifiers at the wastewater treatment plant. Deposits of \$32,846 were required from the Authority for this project.

On August 31, 2016, the Authority approved an amendment related to construction and engineering costs for the North and South Final Clarifiers. Additional deposits of \$964,478 were required from the Authority for this amendment.

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7. 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 were required from the Authority for this project.

8. North and Stevens Force Main Assessment – On July 21, 2017, an agreement was established to provide for condition assessments of the North Pumping and Stevens Avenue Pumping Stations to determine operation reliability and plan for future rehabilitation and/or replacement. Deposits of \$4,780 were required from the Authority for this project.

9. Conestoga Gardens Pumping Station Comminutor Replacement – On May 14, 2018, an agreement was established to replace the comminutor in order to keep the pumping station functional. Deposits of \$23,306 were required from the Authority for this project.

During 2018, this project was completed, and all funds were spent on the project.

Balances held in escrow as of December 31, 2018 are as follows:

See Notes Above

| | |
|---|---------------------|
| 1 | \$ 45,613 |
| 2 | 219,455 |
| 3 | 579,597 |
| 4 | 23,184 |
| 5 | 1,005 |
| 6 | 381,111 |
| 7 | 13,847 |
| 8 | 2,066 |
| 9 | - |
| | <u>\$ 1,265,878</u> |

EAST LAMPETER SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018

4. Lease Agreements

The Authority leases the sewer system to the Township in accordance with an Eighth Supplemental Trust Indenture dated November 14, 2018, to an agreement of Lease dated as of April 15, 1985, as amended and supplemented by a Seventh Supplemental Agreement of Lease, dated as of July 14, 2016, a Sixth Supplemental Agreement of Lease, dated as of August 13, 2014, 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 Leases expires October 1, 2031.

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

Approximate lease payments to be received are as follows:

| | | |
|--------------------------|----|--------------------------|
| 2019 | \$ | 1,490,196 |
| 2020 | | 1,585,238 |
| 2021 | | 1,599,425 |
| 2022 | | 1,600,051 |
| 2023 | | 1,738,727 |
| 2024-2028 | | 5,264,401 |
| 2028-2031 | | <u>629,606</u> |
| Total | | 13,907,644 |
| Less - interest payments | | <u>1,840,644</u> |
| Total principal payments | \$ | <u><u>12,067,000</u></u> |

EAST LAMPETER SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018

5. Long-Term Debt

A schedule of long-term debt activity for the year ending December 31, 2018 is shown below:

| | Balance January 1 | New Debt Issued | Debt Retired | Balance December 31 | Due Within One Year |
|--|----------------------|---------------------|---------------------|------------------------|------------------------|
| Guaranteed Sewer Revenue Note - Series of 2010 | \$ 4,719,500 | \$ - | \$ 4,719,500 | \$ - | \$ - |
| Guaranteed Sewer Revenue Bonds - Series of 2014 | 6,095,000 | - | 780,000 | 5,315,000 | 125,000 |
| Guaranteed Sewer Revenue Note - Series of 2016 | 551,516 | 1,798,484 | 150,000 | 2,200,000 | 155,000 |
| Guaranteed Sewer Revenue Note - Series of 2018 | - | 4,552,000 | - | 4,552,000 | 896,000 |
| | <u>\$ 11,366,016</u> | <u>\$ 6,350,484</u> | <u>\$ 5,649,500</u> | <u>\$ 12,067,000</u> | <u>\$ 1,176,000</u> |

Guaranteed Sewer Revenue Note, Series of 2010

On October 26, 2010, the Authority 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 8.00% and may continue through October 1, 2023. The debt was incurred to provide additional monies for capital additions.

During 2018, this Note was refinanced. See Guaranteed Sewer Revenue Bonds, Series of 2018.

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 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 the date of maturity. This bond issue was used to

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018

refinance Guaranteed Sewer Revenue Bonds, Series of 2009 and provide additional monies for capital additions.

During 2019, this Bond was refinanced. See Subsequent Events.

Guaranteed Sewer Revenue Note, Series of 2016

On July 14, 2016, the Authority issued a \$2,500,000 Guaranteed Sewer Revenue Note, Series of 2016. The interest rate for the period July 14, 2016 through July 1, 2021 is 2.4505%. The interest rate for the next five years is a variable rate equal to 2.13% over the 5-year Pittsburgh Federal Home Loan Bank index multiplied by 65%, not to exceed 3.4505%. The interest rate for the next five years is a variable rate equal to 2.13% over the 5-year Pittsburgh Federal Home Loan Bank index multiplied by 65%, not to exceed 4.2005%. The interest rate for the period July 2, 2031 through October 1, 2031 is a variable rate equal to 2.13% over the 5-year Pittsburgh Federal Home Loan Bank index multiplied by 65%, not to exceed 4.7005%. The drawdown note was issued to fund capital additions and extraordinary repairs to the Authority's sewer system. As of December 31, 2016, \$656,948 was drawn down on this note. An additional \$44,568 was drawn down on this note during the year ended December 31, 2017. The remaining \$1,798,484 was drawn down on this note during the year ended December 31, 2018. Interest is payable beginning October 1, 2016. Interest payments continue April 1 and October 1 of each year thereafter to October 1, 2031. Principal maturities occur on October 1, 2017 through 2031.

During 2019, this Note was refinanced. See Subsequent Events.

Guaranteed Sewer Revenue Note, Series of 2018

On November 14, 2018, the Authority issued a \$4,552,000 Guaranteed Sewer Revenue Note, Series of 2018, secured by the Eighth Supplemental Agreement of Lease dated November 14, 2018. Principal maturities occur on October 1, 2019 through 2023. The interest rate for the term of the Note is 2.600%. The debt was incurred to refinance the Guaranteed Sewer Revenue Note, Series of 2010, because that Note provided for a variable rate of interest during the term of the Note. This borrowing did not provide any additional monies to the Authority.

During 2019, this Note was refinanced. See Subsequent Events.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018

Debt service requirements using interest rates in effect at December 31, 2018 are as follows:

| Year Ended December 31, | Principal | Interest | Total |
|----------------------------|----------------------|---------------------|----------------------|
| 2019 | \$ 1,176,000 | \$ 314,196 | \$ 1,490,196 |
| 2020 | 1,289,000 | 296,238 | 1,585,238 |
| 2021 | 1,331,000 | 268,425 | 1,599,425 |
| 2022 | 1,353,000 | 247,051 | 1,600,051 |
| 2023 | 1,528,000 | 210,727 | 1,738,727 |
| 2024-2028 | 4,810,000 | 454,401 | 5,264,401 |
| 2029-2031 | 580,000 | 49,606 | 629,606 |
| Total | <u>\$ 12,067,000</u> | <u>\$ 1,840,644</u> | <u>\$ 13,907,644</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.

6. Front Foot Assessments

When constructing additional sewer lines, the Township and Authority assess a portion of the construction costs against the properties benefited.

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.

7. Additional Contribution Assessment

By virtue of an inter-municipal sewage treatment and sewer plant construction contract agreement between the Township, the Authority, the City, and the Lancaster Area Sewer Authority, dated August 1, 1983, the Township will pay quarterly sewage treatment charges based on their actual usage. Due to controversy over the method of allocating sewage treatment costs, the Township has only paid a portion of the bills received in 2013 through

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018

2018. As of December 31, 2018, the Township held \$386,119 in an escrow account to satisfy claims for underpayments for 2013 through 2018.

During 2019, the dispute with the City of Lancaster was settled. See Subsequent Events.

8. Subsequent Events

Additional Contribution Agreement

During 2019, The Authority and the City reached an agreement regarding the disputed liabilities for sewage treatment charges. The amount the parties agreed to as the liability was \$127,960. This amount has been paid.

In addition, during 2019 all of the parties to the inter-municipal sewage treatment and sewer plant construction contract agreement agreed to an amendment of the agreement.

Long-term Debt

On July 3, 2019, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2019, in the amount of \$5,075,000. The Bonds were issued in order to refinance the Authority's outstanding Guaranteed Sewer Revenue Bonds, Series of 2014, and pay the costs of issuing the Bonds. The Bonds are secured by the Ninth Supplemental Trust Indenture dated July 3, 2019. The Township guarantees the payment of the principal and interest on the Bonds by making lease rental payments to the Authority. Principal maturities occur annually on April 1, 2020 through 2027. Interest rates vary from 1.5% to 2.05% depending on date of maturity.

On December 3, 2019, the Authority issued Guaranteed Sewer Revenue Bonds, Series A and Series B of 2019 in the total amount of \$7,695,000. The Bonds were issued in order to refinance the Authority's outstanding Guaranteed Sewer Revenue Bonds, Series 2016 and Series 2018, pay the costs of issuing the Bonds and borrow additional money to fund various capital projects of the Authority. The Bonds are secured by the Tenth Supplemental Trust Indenture dated December 3, 2019. The Township guarantees the payment of the principal and interest on the Bonds by making lease rental payments to the Authority. Principal maturities occur annually on October 1, 2020 through 2031. Interest rates vary from 1.41% to 2.43% depending on date of maturity.