

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

Financial Statements

Year Ended December 31, 2020  
with Independent Auditor's Report

**MaherDuessel**

A horizontal bar is positioned below the company name. The left portion of the bar is black, and the right portion is blue, matching the color of the 'D' in the company name.

# EAST LAMPETER SEWER AUTHORITY

YEAR ENDED DECEMBER 31, 2020

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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 of the business-type activities and each major fund of East Lampeter Sewer Authority (Authority), a component unit of East Lampeter Township, as of and for the year ended December 31, 2020, 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 business-type activities and each major fund of the Authority as of December 31, 2020, 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 iv, 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  
January 27, 2022

**EAST LAMPETER SEWER AUTHORITY**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2020

**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, 2020. This should be read in conjunction with the financial statements that follow this section.

**GENERAL INFORMATION**

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. Prior to 2020, the Authority was a financing authority operating under the Pennsylvania Municipality Authorities Act of 1945. As a financing authority, it finances, acquires, and owns capital assets (i.e. the sewer system). 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. During 2020, the Township transferred the stormwater system and related facilities to the Authority. The Authority is responsible for operating, maintaining and improving the system. As a result, the Authority became an operating authority.

**FINANCIAL HIGHLIGHTS**

- The Authority has met all of its required debt service payments during the year ended December 31, 2020.
- The City of Lancaster (City) held escrow accounts for nine (9) sewer plant improvement projects. During the year ended December 31, 2020, the Authority's share of construction costs from these accounts totaled \$282,000.
- As noted above, the Township transferred the stormwater system to the Authority during 2020. The Authority began operating the system and began imposing a fee to help offset the costs of operating, maintaining and improving the system. The balances and activity related to sewer system are reported in the columns labeled "Sewer Fund". The balances and activity related to the stormwater system are reported in the columns labeled "Stormwater Fund".
- As the Authority began imposing a stormwater fee, the Authority began collecting the sewer system fee and the stormwater fee and depositing those funds into an Authority bank account. At least quarterly, the Authority transfers the sewer system fees collected to the Township. In prior years, the Township collected the sewer system fee and deposited those funds into a Township bank account.

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**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 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* – funds collected for the stormwater fee and the sewer system fee and other miscellaneous receipts less amounts used to pay the current operating expenses.
  - 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.
- **Liabilities** is the amount of sewer system fees collected and owed to the Township plus various group expenses paid by the Township on behalf of the Authority.
- **Net Position** is divided into three categories:
  - Restricted – for payment of Capital Projects and Debt Service; for payment of Administrative expenses.
  - Unrestricted – all stormwater activities

**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.

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- **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. Also, this category includes the stormwater fees collected.
- **Operating expenditures** include authority operating and administrative expenses and construction costs.
- **Non-operating revenues (expenses)** consist of interest income, state grants and state funding, miscellaneous receipts, interest and principal payments on long term debt, and reimbursement to primary government for pre-2020 disbursements made on behalf of the Authority.
- **Change in net position** – operating revenues exceeded operating expenses resulting in a net operating income. However, current year debt obligations and reimbursement to primary government exceeded investment income, state grants and state funding, and miscellaneous receipts. The Nonoperating loss exceeded the net operating income resulting in a decrease 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 and stormwater fees collected offset by the Authority's operating expenses and construction costs. The cash provided by non-capital financing activities is the net of receipts from the State offset by payments to the Township. The cash used by capital financing activities is the principal and interest paid on long term debt less the proceeds from the sale of fixed assets. The cash used by investing activities is the amount deposited into the City of Lancaster 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.

The Authority received ownership of the stormwater facilities located throughout the Township during 2020.

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*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.

At this time, it is not the intention of the Authority to borrow money to finance stormwater system improvements

**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. Those mandates will also have a significant impact on the future costs to operate, maintain and improve the stormwater facilities. All of 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

## STATEMENT OF NET POSITION - MODIFIED CASH BASIS

DECEMBER 31, 2020

	Sewer Fund	Stormwater Fund	Total Business-Type Activities
<b>Assets</b>			
<hr/>			
Current assets:			
Cash and cash equivalents	\$ 3,741	\$ 560,599	\$ 564,340
Total current assets	3,741	560,599	564,340
Restricted assets			
Restricted cash and cash equivalents	2,728,410	-	2,728,410
City of Lancaster escrow agreements	1,332,335	-	1,332,335
Total restricted assets	4,060,745	-	4,060,745
<b>Total Assets</b>	4,064,486	560,599	4,625,085
<b>Liabilities</b>			
<hr/>			
Due to primary government	-	301,028	301,028
<b>Total Liabilities</b>	-	301,028	301,028
<b>Net Position</b>			
<hr/>			
Restricted to payment of administrative expenses	35,143	-	35,143
Restricted to payment of capital projects and debt service	4,029,343	-	4,029,343
Unrestricted	-	259,571	259,571
<b>Total Net Position</b>	\$ 4,064,486	\$ 259,571	\$ 4,324,057

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

# EAST LAMPETER SEWER AUTHORITY

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2020

	Sewer Fund	Stormwater Fund	Total Business-Type Activities
<b>Operating Revenues:</b>			
Rental income, East Lampeter Township	\$ 1,625,016	\$ -	\$ 1,625,016
Stormwater Charges	-	761,154	761,154
Total operating revenues	<u>1,625,016</u>	<u>761,154</u>	<u>2,386,170</u>
<b>Operating Expenses:</b>			
Construction costs	717,695	-	717,695
Salaries	-	73,348	73,348
Employee Benefits	-	18,920	18,920
Contracted Services	-	65,013	65,013
Other Operating Expenses	43,451	76,562	120,013
Total operating expenses	<u>761,146</u>	<u>233,843</u>	<u>994,989</u>
<b>Operating Income</b>	<u>863,870</u>	<u>527,311</u>	<u>1,391,181</u>
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	16,585	11	16,596
State/Local Sources	-	200,534	200,534
Sale of Fixed Assets	-	5,300	5,300
Refunds of prior year expenses	-	2,460	2,460
Interest expense	(429,777)	-	(429,777)
Principal payments on long-term debt	(1,180,000)	-	(1,180,000)
Reimbursement to primary government	-	(476,045)	(476,045)
Total nonoperating revenues (expenses)	<u>(1,593,192)</u>	<u>(267,740)</u>	<u>(1,860,932)</u>
<b>Change in Net Position</b>	<u>(729,322)</u>	<u>259,571</u>	<u>(469,751)</u>
<b>Net Position:</b>			
Beginning of year	4,793,808	-	4,793,808
End of year	<u>\$ 4,064,486</u>	<u>\$ 259,571</u>	<u>\$ 4,324,057</u>

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

# EAST LAMPETER SEWER AUTHORITY

## STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2020

	Sewer Fund	Stormwater Fund	Total Business-Type Activities
<b>Cash Flows From Operating Activities:</b>			
Receipts from lessee, principal portion	\$ 1,180,000	\$ -	\$ 1,180,000
Receipts from lessee, interest portion	400,016	-	400,016
Receipts from lessee, Authority expenses	45,000	-	45,000
Receipts from Stormwater Charges	-	761,154	761,154
Receipts from Sewer Charges	-	253,057	253,057
Construction costs	(435,831)	-	(435,831)
Payments to employees for services	-	(73,348)	(73,348)
Payments for employee benefits	-	(18,920)	(18,920)
Payments for contracted services	-	(65,013)	(65,013)
Payments for other operating expenses	(43,451)	(28,591)	(72,042)
Net cash provided by operating activities	1,145,734	828,339	1,974,073
<b>Cash Flows from Non-Capital Financing Activities:</b>			
State/Local Sources	-	200,534	200,534
Refunds of prior year expenses	-	2,460	2,460
Net cash provided by non-capital financing activities	-	202,994	202,994
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Proceeds from sale of fixed assets	-	5,300	5,300
Principal payments on long-term debt	(1,180,000)	-	(1,180,000)
Interest payments on long-term debt	(429,777)	-	(429,777)
Reimbursement to primary government	-	(476,045)	(476,045)
Net cash (used in) provided by capital and related financing activities	(1,609,777)	(470,745)	(2,080,522)
<b>Cash Flows From Investing Activities:</b>			
Investment income	16,078	11	16,089
Investment in escrow agreements	(544,200)	-	(544,200)
Net cash (used in) provided by investing activities	(528,122)	11	(528,111)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(992,165)	560,599	(431,566)
<b>Cash and Cash Equivalents:</b>			
Beginning of year	3,724,316	-	3,724,316
End of year	\$ 2,732,151	\$ 560,599	\$ 3,292,750

(Continued)

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

# EAST LAMPETER SEWER AUTHORITY

## STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2020

(Continued)

	Sewer Fund	Stormwater Fund	Total Business-Type Activities
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income	\$ 863,870	\$ 527,311	\$ 1,391,181
Operating expenses paid by primary government	-	47,971	47,971
Receipts collected on behalf of the Sewer Fund	-	253,057	253,057
Add: Construction costs paid by escrow	281,864	-	281,864
Net cash provided by operating activities	\$ 1,145,734	\$ 828,339	\$ 1,974,073
<b>Supplemental Disclosure of Non-Cash Financing and Investing Activities:</b>			
Interest income in escrow accounts	\$ 507	\$ -	\$ 507
Construction costs paid through escrow agreements	281,864	-	281,864
	\$ 281,864	\$ -	\$ 281,864

(Concluded)

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

# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

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### 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 East Lampeter Township (Township) under the Municipality Authorities Act.

The Authority ended 2019 as a financing authority leasing its sewer 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.

On December 13, 2019, the Authority filed an amendment to the Articles of Incorporation of the Authority. The amendment authorizes the Authority to acquire, hold, construct, improve, maintain, operate, and own stormwater systems or parts thereof including the planning, management and implementation of stormwater systems.

As of December 31, 2019, the Authority had not accumulated any assets for stormwater operation nor had they performed any stormwater activities. During 2020, the Township transferred ownership of the stormwater system and the Authority began stormwater operations. After the transfer of the stormwater system, the Authority became an operating authority. Thus, these are the first statements to reflect stormwater assets or activities. As

# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

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part of the transfer of the stormwater system, the Authority transferred \$476,045 to the Township. This transfer was to cover the expenses that were incurred by the Township on behalf of the Authority prior to 2020.

### 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 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 and stormwater fees charged to property owners. Operating expenses for the Authority include stormwater operations, administrative services 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 the amounts due to primary government. In

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## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

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addition, 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, 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.

# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

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### 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.

### Due to the Primary Government

Expenses that are paid for by the Township on behalf of the Authority is reported as a liability in the financial statements. The Authority makes payments throughout the year to reimburse the Township for these expenses.

### 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 2020. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.



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## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

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### Pending GASB Pronouncements

GASB has issued the following Statement that will become effective in future years as shown below. Management has not yet determined the impact of this Statement on the Authority's financial statements.

In June of 2017, the GASB issued Statement No. 87, "*Leases.*" This statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the Authority's December 31, 2022 financial statements.

## **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, Eighth Supplemental Trust Indenture dated November 14, 2018, Ninth Supplemental Trust Indenture dated July 3, 2019 and Tenth Supplemental Trust Indenture dated December 3, 2019 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.

# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

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Deposits and investments as of December 31, 2020 consist of the following:

Cash and cash equivalents:

Deposits with a financial institution	\$	12,173
External investment pool		552,167
Savings - presented as restricted cash and cash equivalents		570,879

Investments:

Money market funds - presented as restricted cash and cash equivalents		<u>2,157,531</u>
Total deposits and investments	\$	<u><u>3,292,750</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](http://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 \$552,167, which require no minimum balance, no minimum initial investment, and have a one-day minimum investment period. At December 31, 2020, PLGIT carried an AAAM rating and had an average maturity of less than one year.

### 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

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## NOTES TO FINANCIAL STATEMENTS

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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, 2020:

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End AAA</u>	<u>Maturity Date</u>
Money market funds	<u>\$ 2,157,531</u>	<u>\$ 2,157,531</u>	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.

As of December 31, 2020, 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.

# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

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### 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.

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.

# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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On August 28, 2020, an agreement was established to provide for an upgrade to the cryogenic oxygen plant controls and vaporization system. Deposits of \$10,451 were required from the Authority for this project.

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.

On December 20, 2018, 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. The deposit was not made until the first quarter of 2019.

On November 26, 2019, 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.

On October 2, 2020, 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.

On November 26, 2019, an amendment to provide additional funding for the design phase of the upgrade to the electrical service at the wastewater treatment plant. Deposits of \$17,170 were required from the Authority for this amendment.

On September 22, 2020, an amendment to provide additional funding for the construction and engineering construction management of the upgrade to the

# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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electrical service at the wastewater treatment plant. Deposits of \$496,423 were required from the Authority for this amendment.

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.

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.

On July 24, 2019, the Authority approved an amendment related to rehabilitation of the force mains. An additional deposit of \$3,107 was required from the Authority for this amendment.

9. Wastewater Treatment Plant Chlorine Scrubber – On July 17, 2019, an agreement was established to construct a chlorine gas scrubbing system and to replace the chlorination building motor control center. Deposits of \$21,350 were required from the Authority for this project.

# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

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Balances held in escrow as of December 31, 2020 are as follows:

See Notes Above

1	\$	45,234
2		177,697
3		237,086
4		94,467
5		499,005
6		245,927
7		13,275
8		2,133
9		17,511
		<u>\$ 1,332,335</u>

On December 4, 2020, an agreement was established to provide for the construction of an additional secondary clarifier to the north treatment train of the City's wastewater treatment plant. Deposits of \$51,210 were required from the Authority for this project. Given the timing of the agreement, the Authority was not able to make the deposit before the end of the calendar year. Since there is no balance in the escrow account for the Authority, we have not reported this in the above table.

#### 4. Lease Agreements

The Authority leases the sewer system to the Township in accordance with a Tenth Supplemental Trust Indenture dated December 3, 2019, to an agreement of Lease dated as of April 15, 1985, as amended and supplemented by a Ninth Supplemental Agreement of Lease, dated as of July 3, 2019, an Eighth Supplemental Agreement of Lease, dated as of November 14, 2018, 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.

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# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

Approximate lease payments to be received are as follows:

	2021	\$	1,643,931
	2022		1,642,681
	2023		1,715,306
	2024		1,631,806
	2025		1,634,956
	2026-2030		4,692,350
	2031		199,389
Total			13,160,419
Less - interest payments			1,570,419
Total principal payments		\$	11,590,000

### 5. Long-Term Debt

A schedule of long-term debt activity for the year ending December 31, 2020 is shown below:

	Balance January 1	New Debt Issued	Debt Retired	Balance December 31	Due Within One Year
Guaranteed Sewer Revenue Bonds - Series of 2019	\$ 5,075,000	\$ -	\$ 65,000	\$ 5,010,000	\$ 85,000
Guaranteed Sewer Revenue Bonds - Series A of 2019	5,515,000	-	1,110,000	4,405,000	1,135,000
Guaranteed Sewer Revenue Bonds - Series B of 2019	2,180,000	-	5,000	2,175,000	5,000
	\$ 12,770,000	\$ -	\$ 1,180,000	\$ 11,590,000	\$ 1,225,000

#### Guaranteed Sewer Revenue Bonds, Series of 2019

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



# EAST LAMPETER SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020

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1, 2020 through 2027. Interest rates vary from 1.5% to 2.05% depending on date of maturity.

### Guaranteed Sewer Revenue Bonds, Series A and Series B of 2019

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.

Debt service requirements using interest rates in effect at December 31, 2020 are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,225,000	\$ 418,931	\$ 1,643,931
2022	1,285,000	357,681	1,642,681
2023	1,440,000	275,306	1,715,306
2024	1,440,000	191,806	1,631,806
2025	1,510,000	124,956	1,634,956
2026-2030	4,495,000	197,350	4,692,350
2031	195,000	4,389	199,389
Total	<u>\$ 11,590,000</u>	<u>\$ 1,570,419</u>	<u>\$ 13,160,419</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

YEARS ENDED DECEMBER 31, 2020

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### **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.