



EAST LAMPETER SEWER AUTHORITY
(A Component Unit of East Lampeter Township)

FINANCIAL STATEMENTS

Year Ended December 31, 2021



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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying modified cash basis financial statements of the business-type activities and each major fund of the East Lampeter Sewer Authority (the "Authority"), a component unit of East Lampeter Township, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities and each major fund of the East Lampeter Sewer Authority as of December 31, 2021, and the respective changes in modified cash basis financial position and cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of East Lampeter Sewer Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about East Lampeter Sewer Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 East Lampeter Sewer Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about East Lampeter Sewer Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the management's discussion and analysis but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Herbein + Company, Inc.

Reading, Pennsylvania
October 17, 2022

EAST LAMPETER SEWER AUTHORITY
Management's Discussion and Analysis
For the Year Ended December 31, 2021

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, 2021. 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. The Authority was originally a financing authority operating under the Pennsylvania Municipality Authorities Act of 1945. As a financing authority, it financed, acquired, and owned sewer system 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. During 2020, the Township transferred the stormwater system and related facilities to the Authority. At that point, the Authority became an operating authority. The Authority is responsible for operating, maintaining and improving the stormwater system.

FINANCIAL HIGHLIGHTS

- The Authority has met all of its required debt service payments during the year ended December 31, 2021.
- The City of Lancaster (City) held escrow accounts for eleven (11) sewer plant improvement projects. During the year ended December 31, 2021, the Authority's share of construction costs from these accounts totaled \$313 thousand.
- As noted above, the Township transferred the stormwater system to the Authority during 2020. The Authority began operating the stormwater system and began imposing a fee to help offset the costs of operating, maintaining and improving the system. The balances and activity related to the stormwater system are reported in the columns labeled "Stormwater Fund". To distinguish between the 2 different types of operations, the balances and activity related to the sewer system are reported in the columns labeled "Sewer 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 to the Township the sewer system fees collected by the Authority. In prior years, the Township collected the sewer system fee and deposited those funds into a Township bank account.

EAST LAMPETER SEWER AUTHORITY
Management's Discussion and Analysis
For the Year Ended December 31, 2021

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, Expenses, and Changes in Net Position, and Statement 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 and the debt obligations 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.
- **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

EAST LAMPETER SEWER AUTHORITY
Management's Discussion and Analysis
For the Year Ended December 31, 2021

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. 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, and interest and principal payments on long term debt.
- **Change in net position** - operating revenues exceeded operating expenses resulting in a net operating income. However, current year debt obligations exceeded investment income, state grants and state funding resulting in a nonoperating loss. Fortunately, the net operating income exceeded the nonoperating loss 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 and stormwater fees collected offset by the Authority's operating and administrative expenses and construction costs. The cash provided by non-capital financing activities is the receipts from the State and the Township to offset expenses incurred by the Authority. The cash used by capital financing activities is the principal and interest paid on long term debt. The cash used by investing activities is the amount deposited into the City of Lancaster escrow accounts less interest income and refunds received from the City of Lancaster escrow accounts.

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

EAST LAMPETER SEWER AUTHORITY
Management's Discussion and Analysis
For the Year Ended December 31, 2021

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.

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 sewer 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, 2021

	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	<u>Total Business-Type Activities</u>
ASSETS			
CURRENT ASSETS			
Cash and investments	\$ 1,010	\$ 1,734,890	\$ 1,735,900
Restricted assets:			
Cash and investments - trust indenture	2,434,138	-	2,434,138
Escrow held for intergovernmental agreements	1,114,879	-	1,114,879
TOTAL ASSETS	<u>3,550,027</u>	<u>1,734,890</u>	<u>5,284,917</u>
LIABILITIES			
CURRENT LIABILITIES			
Due to primary government	-	242,560	242,560
TOTAL LIABILITIES	<u>-</u>	<u>242,560</u>	<u>242,560</u>
NET POSITION			
Restricted to payment of administrative expenses	32,416	-	32,416
Restricted to payment of capital projects and debt service	3,517,611	-	3,517,611
Unrestricted	-	1,492,330	1,492,330
TOTAL NET POSITION	<u>\$ 3,550,027</u>	<u>\$ 1,492,330</u>	<u>\$ 5,042,357</u>

EAST LAMPETER SEWER AUTHORITY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - MODIFIED CASH BASIS

For the Year Ended December 31, 2021

	Sewer Fund	Stormwater Fund	Total Business-Type Activities
OPERATING REVENUES			
Rental income, East Lampeter Township	\$ 1,688,927	\$ -	\$ 1,688,927
Stormwater charges	-	1,681,062	1,681,062
TOTAL OPERATING REVENUES	1,688,927	1,681,062	3,369,989
OPERATING EXPENSES			
Personnel services	1,375	230,766	232,141
Professional fees	-	42,064	42,064
Primary government administrative charges	-	67,172	67,172
Other operating goods and services	46,358	60,864	107,222
Construction costs	513,326	-	513,326
TOTAL OPERATING EXPENSES	561,059	400,866	961,925
OPERATING INCOME	1,127,868	1,280,196	2,408,064
NONOPERATING REVENUES (EXPENSES)			
Interest income	1,604	411	2,015
State sources	-	4,797	4,797
Other revenue	-	2,203	2,203
Principal payments on long-term debt	(1,225,000)	(53,602)	(1,278,602)
Interest expense	(418,931)	(1,246)	(420,177)
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,642,327)	(47,437)	(1,689,764)
CHANGE IN NET POSITION	(514,459)	1,232,759	718,300
NET POSITION - BEGINNING OF YEAR	4,064,486	259,571	4,324,057
NET POSITION - END OF YEAR	\$ 3,550,027	\$ 1,492,330	\$ 5,042,357

See accompanying notes.

EAST LAMPETER SEWER AUTHORITY

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS

For the Year Ended December 31, 2021

	Sewer Fund	Stormwater Fund	Total Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES			
Received from lessee, principal portion	\$ 1,225,000	\$ -	\$ 1,225,000
Received from lessee, interest portion	418,927	-	418,927
Received from lessee, administrative fee	45,000	-	45,000
Received from customers	(1,375)	1,681,062	1,679,687
Payments for employee services and benefits	-	(230,766)	(230,766)
Payments to suppliers for goods and services	(246,840)	(228,568)	(475,408)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,440,712	1,221,728	2,662,440
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State sources	-	4,797	4,797
Other revenue	-	2,203	2,203
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	7,000	7,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on long-term debt	(1,225,000)	(53,602)	(1,278,602)
Interest payments on long-term debt	(418,931)	(1,246)	(420,177)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(1,643,931)	(54,848)	(1,698,779)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	1,436	411	1,847
Refund of escrow held for intergovernmental agreements	177,700	-	177,700
Payments to escrow held for intergovernmental agreements	(272,920)	-	(272,920)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(93,784)	411	(93,373)
NET INCREASE (DECREASE) IN CASH	(297,003)	1,174,291	877,288
CASH AT BEGINNING OF YEAR	2,732,151	560,599	3,292,750
CASH AT END OF YEAR	\$ 2,435,148	\$ 1,734,890	\$ 4,170,038
RECONCILIATION OF OPERATING INCOME TO			
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	\$ 1,127,868	\$ 1,280,196	\$ 2,408,064
Adjustments to reconcile operating income to net cash provided by operating activities			
Operating expenses paid by primary government	-	(58,468)	(58,468)
Construction costs paid by escrow assets	312,844	-	312,844
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,440,712	\$ 1,221,728	\$ 2,662,440
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES			
Interest income in escrow accounts	\$ 168	\$ -	\$ 168
Construction costs paid by escrow assets	312,844	-	312,844

See accompanying notes.

EAST LAMPETER SEWER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

The East Lampeter Sewer Authority (the "Authority"), a component unit of East Lampeter Township, is a government entity created pursuant to an ordinance of the Board of Supervisors of East Lampeter Township (the "Township"), under an Act of the General Assembly of the Commonwealth of Pennsylvania, approved May 2, 1945, P.L. 382 as amended and supplemental, known as the "Municipality Authorities Act of 1945." The Authority is governed by a Board consisting of five members appointed by the Township Board of Supervisors.

The Authority was formed in 1970 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. 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. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As described further in Note 1C., 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.

A. Financial Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Authority (the primary government) and its component units.

The Authority used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (municipalities, boards, councils, fiduciary activities, etc.) within its reporting entity. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and legally separate entities for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of a legally separate entity that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that legally separate entity should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that the exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Financial Reporting Entity - continued

Based on the foregoing criteria, the Authority has determined that it does not have any component units, but is itself a component unit of East Lampeter Township. The Authority is governed by a Board consisting of five members appointed by the Township Board of Supervisors. The Township has guaranteed payment of the Sewer Revenue Bonds and Notes. Finally, there is a financial burden between the Township and the Authority. Therefore, the Authority is a blended component unit of the Township. These financial statements represent the activity of the Authority only, and do not reflect any activity of the primary government.

B. Basis of Presentation

Proprietary Funds - All activities of the Authority are accounted for within two proprietary (enterprise) funds and are classified as business-type activities. 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 (expenses, including depreciation) of providing goods or 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 following are descriptions of the proprietary funds of the Authority that are reported as major funds:

Sewer Fund - is used to account for the construction of assets and payment of debt obligations of the sewer system and related facilities which are leased to the Township who operates and maintains the system.

Stormwater Fund - is used to account for the operations of the stormwater system and related facilities. The stormwater system is a public utility service, which is maintained on a self-supporting basis.

Operating revenues and expenses are distinguished from nonoperating items in the statements of revenues, expenses, and changes in net position - modified cash basis. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are lease rentals from the Township and charges to customers for stormwater fees. Operating expenses include the cost of stormwater operations, administrative expenses, and construction costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

1. Measurement Focus

The Authority utilizes an 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 (or cost recovery), net financial position, and cash flows. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

2. Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Under this basis, revenues are recorded when received and expenses are recorded when paid, except amounts due to primary government. In addition, the restricted assets - escrow held for intergovernmental agreements are reported. Although not held by the Authority, the Authority records its intergovernmental escrow agreements as restricted assets of the Authority until the Authority and other participants in the intergovernmental agreements authorize the withdrawal of said monies.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and 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 cash transactions or events are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Authority utilized the basis of accounting recognized as generally accepted in the United States of America, the financial statements would use the accrual basis of accounting.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Budgetary Accounting

The Authority is not required to adopt a budget, but it does. The Authority adopts a flexible annual operating budget. The budget is adopted on a basis consistent with the modified cash basis of accounting. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, debt payments, construction, general functions, and other charges for the year.

E. Financial Position

1. Cash and Cash Equivalents

For purposes of reporting cash flows, the Authority considers all cash accounts which are not subject to withdrawal restrictions or penalties, and all highly-liquid debt investments purchased with a maturity of three months or less to be cash and cash equivalents.

2. Restricted Assets

The restricted cash and investments represent funds received by the Authority from debt instruments that are restricted for specific purposes by trust indentures.

Escrow held for intergovernmental agreements are restricted by the agreements for various capital improvement projects.

3. 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.

4. Due to the Primary Government

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

5. Leases

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

6. 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).

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

7. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources and is classified into two categories, as applicable, as follows:

- Restricted net position is an amount that has externally imposed restrictions on how the funds can be spent.
- Unrestricted net position is an amount that does not meet the definitions of “investment in capital assets” or “restricted” and is available for Authority operations.

8. Net Position Flow Assumptions

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Authority’s policy to consider restricted resources to have been depleted before unrestricted resources are applied.

F. Use of Estimates

The preparation of financial statements in accordance with the modified cash basis of accounting used by the Authority requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

The Authority is permitted to invest funds in:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law, therefore, shall be pledged by the depository.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

Pennsylvania Act 10 of 2016 became effective May 25, 2016 and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

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.

The components of cash and investments, as presented on the financial statements, are as follows at December 31, 2021:

Deposits	\$ 29,500
Pooled cash and investments (PLGIT)	1,706,400
Savings - restricted cash	26,883
Overnight sweep - restricted investments	<u>2,407,255</u>
	<u>\$ 4,170,038</u>

Cash

Custodial Credit Risk - Deposit

Custodial credit risk is the risk that in the event of a bank failure the government's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of December 31, 2021, the carrying amount of the Authority's deposits was \$56,383 and the bank balance was \$56,383. As of December 31, 2021, the entire bank balance was covered by federal depository insurance.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2021

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2021, the Authority had the following pooled cash and investments:

	Fair Value	Carrying Value
<u>Pooled Cash and Investments</u>		
PA Local Government Investment Trust (PLGIT):		
PLGIT - Class	\$ 176,090	\$ 176,090
PLGIT - Prime	1,530,335	1,530,335
Less: reconciling items		(25)
Pooled cash and investments		1,706,400
 <u>Investments</u>		
Overnight sweep - money market portfolio	2,407,255	2,407,255
Total pooled cash and investments		\$ 4,113,655

Certain external pool investments held by the Authority, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The Authority measures those investments, which include \$1,706,425 (PLGIT), at amortized cost.

A portion of the Authority’s deposits were in the Pennsylvania Local Government Investment Trust (PLGIT). PLGIT acts like a money market mutual fund in that the objective is to maintain a stable net asset value of \$1 per share, is rated by nationally recognized statistical rating organization, and is subject to an independent annual audit.

PLGIT invests primarily in U.S. Treasury and federal agency securities and repurchase agreements secured by such obligations, as well as certain municipal obligations and collateralized or insured certificates of deposit. The fund manager intends to comply with guidelines similar to those mandated for money-market funds as contained in Rule 2a-7 of the Investment Company Act of 1940.

PLGIT - Class Shares are a flexible option within the PLGIT fund which requires no minimum balance, no minimum initial investments, and a one-day minimum investment period. Dividends are paid monthly.

PLGIT - Prime - A variable rate investment portfolio which requires no minimum balance and no minimum investment. This option limits redemptions or exchanges to two per calendar month.

The Authority’s cash equivalent investments in PLGIT cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The fair value of the Authority’s position in the external investment pool is the same as the value of the pool shares. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

The Authority's investments of \$2,407,255 as of December 31, 2021 are held in an overnight investment sweep account in a money market portfolio that is comprised of U.S. Government and U.S. Treasury securities.

As of December 31, 2021, the entire PLGIT book balance of \$1,706,400 and the investment carrying balance of \$2,407,255 are considered to be cash equivalents.

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Authority has no investment policy that would limit its investment choices to certain credit ratings. The Authority's investment in PLGIT is not rated as it is part of a government investment pool but has an implied rating of AAAM from Standard and Poor's. The Authority's investment in overnight sweeps in a money market portfolio has a rating of AAAM from Standard and Poor's.

Concentration of Credit Risk

All of the Authority's investments are issued or guaranteed by the U.S. Government and investments in mutual pools and excluded from this risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Authority has no investment subject to custodial credit risk.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 3 - RESTRICTED ASSETS - ESCROW HELD FOR INTERGOVERNMENTAL AGREEMENTS

The Authority has entered into various agreements with the City of Lancaster and other neighboring municipalities. As a participant in the agreements, the Authority is required to deposit its cost allocation for the respective capital improvement projects. The monies are deposited in escrow accounts maintained by a financial institution (escrow agent) for the City. Funds may only be withdrawn upon authorization of all participants in the intergovernmental 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 wastewater treatment plant facilities. Additional deposits of \$44,790 were required from the Authority for this portion of the project.

2. 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.

On June 9, 2021, the Authority approved an amendment to provide for additional construction funding to complete the project. Deposits of \$245,952 were required from the Authority for this project which were funded via a transfer from the remaining funds in the Final Clarifier Upgrades account.

3. 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, November 26, 2019, October 2, 2020, and October 22, 2021, the Authority approved amendments to provide additional funding for continual implementation of the projects. Additional deposits of \$37,325 annually were required from the Authority for these amendments.

EAST LAMPETER SEWER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 3 - RESTRICTED ASSETS - ESCROW HELD FOR INTERGOVERNMENTAL AGREEMENTS - CONTINUED

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

5. 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.
6. 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.

7. 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.

On June 9, 2021, the Authority approved an amendment to provide additional funding for additional related design for the project. Additional deposits of \$12,691 were required from the Authority for this amendment.

8. Wastewater Treatment Plant North Secondary Clarifier Addition - 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. The deposit was not made until the first quarter of 2021.

EAST LAMPETER SEWER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 3 - RESTRICTED ASSETS - ESCROW HELD FOR INTERGOVERNMENTAL AGREEMENTS - CONTINUED

9. Wastewater Treatment Oxygen Plant Improvements - 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 which were funded via a transfer from the Oxygen Control and BNR System Improvements account.

On October 22, 2021, the Authority approved an amendment to provide additional funding for the construction and engineering construction management of the upgrade. Additional deposits of \$171,695 were required from the Authority for this amendment.

Balances held in escrow as of December 31, 2021 are as follows:

Agreement number per notes above:

1	\$	45,241
2		291,618
3		80,020
4		442,867
5		13,278
6		2,133
7		29,808
8		36,112
9		<u>173,802</u>
		<u>\$ 1,114,879</u>

Subsequent to year end the Authority approved the following escrow agreements and amendments:

Special project, emergency repairs, replacements, and improvements	\$ 56,734
Electrical service upgrade	41,804
Composting system demolition	32,846

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 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.

Approximate lease payments to be received are as follows:

2022	\$	1,642,681
2023		1,715,306
2024		1,631,806
2025		1,634,956
2026		1,633,156
2027-2031		3,258,582
 Total		 11,516,487
Less - interest payments		(1,151,487)
 Total principal payments		 \$ 10,365,000

NOTE 5 - LONG-TERM DEBT

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

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 5 - LONG-TERM DEBT - CONTINUED

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.

Principal maturities on the general obligation bonds are as follows:

	Principal	Interest	Total
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	1,550,000	83,156	1,633,156
2027-2031	3,140,000	118,582	3,258,582
	\$ 10,365,000	\$ 1,151,487	\$ 11,516,487

The following is a summary of the Authority's long-term debt transactions for the year:

	Balance 1/1/2021	Additions	Payments	Balance 12/31/2021	Due within one year
Guaranteed Sewer Revenue Bonds, Series of 2019	\$ 5,010,000	\$ -	\$ 85,000	\$ 4,925,000	\$ 85,000
Guaranteed Sewer Revenue Bonds, Series A of 2019	4,405,000	-	1,135,000	3,270,000	1,195,000
Guaranteed Sewer Revenue Bonds, Series B of 2019	2,175,000	-	5,000	2,170,000	5,000
	\$ 11,590,000	\$ -	\$ 1,225,000	\$ 10,365,000	\$ 1,285,000

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

In the event of default, the holders of the bonds are entitled to rights and remedies provided by the Local Government Unit Debt Act.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 6 - 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; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all areas for which the Authority retains risk of loss. There were no reductions in insurance coverages for the 2021 year and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 7 - COMMITMENTS

Subsequent to year end, the Authority awarded the following contracts:

Stauffer Run Pump Station Improvement Project	\$1,280,541
Greenfield Road Storm Sewer Project	358,708

The Authority plans to use existing resources in its funds to satisfy these commitments.

NOTE 8 - NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the Authority's fiscal year ending December 31, 2022.
- Statement No. 91, *Conduit Debt Obligations* - This statement clarifies the existing definition of conduit debt obligations; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This statement is effective for the Authority's fiscal year ending December 31, 2022.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021

NOTE 8 - NEW ACCOUNTING STANDARDS - CONTINUED

- Statement No. 96, *Subscription-Based IT Arrangements* - This statement establishes guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This statement is effective for the Authority's fiscal year ending December 31, 2023.

- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, This statement's primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a board would perform; (2) mitigate the costs of reporting certain defined contribution pension or other postemployment benefit plans as a fiduciary component unit; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided. This statement is effective for the Authority's fiscal year ending December 31, 2022.

The Authority has not yet completed the analysis necessary to determine the actual financial statement impact of these new pronouncements.