

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

FINANCIAL STATEMENTS

Year Ended December 31, 2022

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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, 2022, 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, 2022, 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.

Emphasis of Matter - 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.

Herbein + Company, Inc.

Reading, Pennsylvania
August 21, 2023

EAST LAMPETER SEWER AUTHORITY

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

December 31, 2022

	<u>Sewer Fund</u>	<u>Stormwater Fund</u>	<u>Total Business-Type Activities</u>
ASSETS			
CURRENT ASSETS			
Cash and investments	\$ 10,397	\$ 2,732,712	\$ 2,743,109
Restricted assets:			
Cash and investments - trust indenture	1,923,296	-	1,923,296
Escrow funds held by City of Lancaster	753,866	-	753,866
	<u>2,687,559</u>	<u>2,732,712</u>	<u>5,420,271</u>
TOTAL ASSETS			
LIABILITIES			
CURRENT LIABILITIES			
Due to primary government	-	259,872	259,872
	<u>-</u>	<u>259,872</u>	<u>259,872</u>
NET POSITION			
Restricted for:			
Administrative expenses	42,234	-	42,234
Debt service	687	-	687
Capital projects	2,644,638	-	2,644,638
Unrestricted	-	2,472,840	2,472,840
	<u>-</u>	<u>2,472,840</u>	<u>2,472,840</u>
TOTAL NET POSITION	<u>\$ 2,687,559</u>	<u>\$ 2,472,840</u>	<u>\$ 5,160,399</u>

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

For the Year Ended December 31, 2022

	Sewer Fund	Stormwater Fund	Total Business-Type Activities
OPERATING REVENUES			
Rental income, East Lampeter Township	\$ 1,702,679	\$ -	\$ 1,702,679
Stormwater charges	-	1,697,512	1,697,512
TOTAL OPERATING REVENUES	1,702,679	1,697,512	3,400,191
OPERATING EXPENSES			
Personnel services	1,325	240,874	242,199
Professional fees	-	60,753	60,753
Primary government administrative charges	-	81,554	81,554
Other operating goods and services	49,423	391,811	441,234
Wastewater project costs	902,868	-	902,868
TOTAL OPERATING EXPENSES	953,616	774,992	1,728,608
OPERATING INCOME	749,063	922,520	1,671,583
NONOPERATING REVENUES (EXPENSES)			
Interest income	31,049	47,478	78,527
State sources	-	10,361	10,361
Other revenue	101	151	252
Principal payments on long-term debt	(1,285,000)	-	(1,285,000)
Interest expense	(357,681)	-	(357,681)
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,611,531)	57,990	(1,553,541)
CHANGE IN NET POSITION	(862,468)	980,510	118,042
NET POSITION - BEGINNING OF YEAR	3,550,027	1,492,330	5,042,357
NET POSITION - END OF YEAR	\$ 2,687,559	\$ 2,472,840	\$ 5,160,399

See accompanying notes.

EAST LAMPETER SEWER AUTHORITY

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS

For the Year Ended December 31, 2022

	Sewer Fund	Stormwater Fund	Total Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES			
Received from lessee, principal portion	\$ 1,285,000	\$ -	\$ 1,285,000
Received from lessee, interest portion	357,679	-	357,679
Received from lessee, administrative fee	60,000	-	60,000
Received from customers	-	1,697,512	1,697,512
Payments for employee services and benefits	(1,325)	(240,874)	(242,199)
Payments to suppliers for goods and services	(412,508)	(516,806)	(929,314)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,288,846	939,832	2,228,678
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State sources	-	10,361	10,361
Other revenue	101	151	252
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	101	10,512	10,613
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on long-term debt	(1,285,000)	-	(1,285,000)
Interest payments on long-term debt	(357,681)	-	(357,681)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(1,642,681)	-	(1,642,681)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	30,207	47,478	77,685
Refund of escrow funds held by City of Lancaster	54,840	-	54,840
Payments to escrow funds held by City of Lancaster	(232,768)	-	(232,768)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(147,721)	47,478	(100,243)
NET INCREASE (DECREASE) IN CASH	(501,455)	997,822	496,367
CASH AT BEGINNING OF YEAR	2,435,148	1,734,890	4,170,038
CASH AT END OF YEAR	\$ 1,933,693	\$ 2,732,712	\$ 4,666,405
RECONCILIATION OF OPERATING INCOME TO			
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	\$ 749,063	\$ 922,520	\$ 1,671,583
Adjustments to reconcile operating income to net cash provided by operating activities			
Operating expenses paid by primary government	-	17,312	17,312
Wastewater project costs paid by escrow assets	539,783	-	539,783
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,288,846	\$ 939,832	\$ 2,228,678
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES			
Interest income in escrow accounts	\$ 842	\$ -	\$ 842
Wastewater project costs paid by escrow assets	539,783	-	539,783

See accompanying notes.

EAST LAMPETER SEWER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

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, 2022

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, 2022

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 funds held by City of Lancaster 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, 2022

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 funds held by City of Lancaster 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.

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, 2022

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, 2022

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.

The components of cash and investments, as presented on the financial statements, are as follows at December 31, 2022:

Deposits	\$	26,284
Pooled cash and investments (PLGIT)		2,716,825
Overnight sweep - restricted investments		<u>1,923,296</u>
	\$	<u><u>4,666,405</u></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, 2022, the carrying amount of the Authority's deposits was \$26,284 and the bank balance was \$25,734. As of December 31, 2022, the entire bank balance was covered by federal depository insurance.

Investments

As of December 31, 2022, 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):		
Class	\$ 272,589	\$ 272,589
Prime	2,453,040	2,453,040
Less: reconciling items		<u>(8,804)</u>
Pooled cash and investments		2,716,825
<u>Investments</u>		
Overnight sweep - money market portfolio	1,923,296	<u>1,923,296</u>
Total pooled cash and investments		<u><u>\$ 4,640,121</u></u>

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 \$2,725,629 (PLGIT), at amortized cost.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

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.

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.

Prime is 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.

The Authority's investments of \$1,923,296 as of December 31, 2022 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, 2022, the entire PLGIT book balance of \$2,716,825 and the investment carrying balance of \$1,923,296 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.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

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.

Restricted Cash and Investments - Trust Indenture

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 of 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 BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - RESTRICTED ASSETS - ESCROW FUNDS HELD BY CITY OF LANCASTER

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. A subsequent amendment was approved to provide additional funding for the development of the short-term and long-term capital needs of the wastewater treatment plant facilities.
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. Subsequent amendments were approved to provide additional construction funding to complete the project including an amendment on December 9, 2022.
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. Subsequent amendments were approved to provide additional funding for continual implementation of the projects
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. Subsequent amendments were approved related to the design phase and the construction and engineering construction management of the upgrade to the electrical service at the wastewater treatment plant. On June 30, 2022, an amendment to provide additional funding needed based on bid results, remaining available contingency, and the necessary contract change order for the addition of above grade cable termination cabinets.
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.
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. On September 27, 2022, the Authority approved an amendment to provide additional funding for rehabilitation of the force mains.
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. A subsequent amendment was approved related to additional design for the project.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - RESTRICTED ASSETS - ESCROW FUNDS HELD BY CITY OF LANCASTER - CONTINUED

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.
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. A subsequent amendment was approved to provide additional funding for the construction and engineering construction management of the upgrade.
10. Special Project, Emergency Repairs, Replacements, and Improvements - On June 30, 2022, an agreement was established to provide for special projects and emergency repairs, replacements, and improvements capital in nature needed to keep the wastewater treatment plant operationally functional.
11. Composting System Demolition - On June 30, 2022, an agreement was established to provide for the demolition of abandoned composting system.
12. South Primary Clarifier Addition - On September 27, 2022, an agreement was established to provide for the upgrade of the south primary clarifiers of the wastewater treatment plant.
13. South Train Screenings - On September 27, 2022, an agreement was established to provide for the upgrade of south train screening and handling facilities.

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2022

NOTE 3 - RESTRICTED ASSETS - ESCROW FUNDS HELD BY CITY OF LANCASTER - CONTINUED

Activity related to the funds in escrow for the year ended December 31, 2022 was as follows:

Agreement number	Balance at 12/31/2021	Deposits	Construction Costs	Interest	Refund	Balance at 12/31/2022
1	\$ 45,241	\$ -	\$ -	\$ 47	\$ -	\$ 45,288
2	291,618	-	(263,726)	139	-	28,031
3	80,020	-	(25,186)	6	(54,840)	-
4	442,867	41,804	(194,276)	328	-	290,723
5	13,278	-	-	13	-	13,291
6	2,133	17,925	-	4	-	20,062
7	29,808	-	(457)	40	-	29,391
8	36,112	-	(6,450)	32	-	29,694
9	173,802	-	(23,444)	162	-	150,520
10	-	56,734	(26,057)	33	-	30,710
11	-	32,846	(187)	27	-	32,686
12	-	45,835	-	6	-	45,841
13	-	37,624	-	5	-	37,629
	<u>\$ 1,114,879</u>	<u>\$ 232,768</u>	<u>\$ (539,783)</u>	<u>\$ 842</u>	<u>\$ (54,840)</u>	<u>\$ 753,866</u>

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

Special project, emergency repairs, replacements, and improvements	\$ 37,325
CGPS and SAPS interceptor flow monitoring and capacity evaluation	128,456
Dewatering building locker room	7,465

EAST LAMPETER SEWER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 4 - LEASE AGREEMENTS - SEWER FUND

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:

2023	\$	1,715,306
2024		1,631,806
2025		1,634,956
2026		1,633,156
2027		1,631,056
2028-2031		<u>1,627,525</u>
Total		9,873,805
Less - interest payments		<u>(793,805)</u>
Total principal payments	\$	<u><u>9,080,000</u></u>

EAST LAMPETER SEWER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 5 - LONG-TERM DEBT - SEWER FUND

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.

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
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	1,570,000	61,056	1,631,056
2028-2031	1,570,000	57,525	1,627,525
	\$ 9,080,000	\$ 793,805	\$ 9,873,805

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

	Balance 1/1/2022	Additions	Payments	Balance 12/31/2022	Due within one year
Guaranteed Sewer Revenue Bonds, Series of 2019	\$ 4,925,000	\$ -	\$ 85,000	\$ 4,840,000	\$ 810,000
Guaranteed Sewer Revenue Bonds, Series A of 2019	3,270,000	-	1,195,000	2,075,000	625,000
Guaranteed Sewer Revenue Bonds, Series B of 2019	2,170,000	-	5,000	2,165,000	5,000
	\$ 10,365,000	\$ -	\$ 1,285,000	\$ 9,080,000	\$ 1,440,000

EAST LAMPETER SEWER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 5 - LONG-TERM DEBT - SEWER FUND - CONTINUED

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.

Subsequent to year end, on March 10, 2023, the Authority issued Guaranteed Sewer Revenue Notes, Series of 2023 in the total amount of \$5,000,000. The Notes were issued in order to pay the costs of issuing the Notes and borrow additional money to fund capital additions and extraordinary repairs to the Sewer System. The Notes are secured by the Eleventh Supplemental Trust Indenture dated March 10, 2023. The Township guarantees the payment of the principal and interest on the Notes by making lease rental payments to the Authority. Principal maturities occur annually on October 1, 2023 through 2031. Interest rate is 3.85%.

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 2022 year and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 7 - COMMITMENTS

Sewer Fund

The Authority has entered into three construction contracts in the total amount of \$1,334,234 for upgrades to the Stauffer Run Pump Station. As of December 31, 2022, the Authority has incurred expenses on the contracts in the total amount of \$319,401, with a commitment remaining of \$1,014,833. The remaining commitment will be paid with existing cash.

Stormwater Fund

Subsequent to year end, the Authority awarded a contract for a Streambank Construction Project in the amount of \$377,858. The Authority plans to use existing resources in its funds to satisfy these commitments.