

LAKE CITY MUNICIPAL SEWER AUTHORITY
A Component Unit of the Borough of Lake City

Financial Statements

For the Year Ended December 31, 2019

LAKE CITY MUNICIPAL SEWER AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF LAKE CITY
LAKE CITY, PENNSYLVANIA

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Statement of Net Position – Modified Cash Basis.....	3
Combining Statement of Revenues, Expenditures And Changes in Net Position.....	4
Notes to Financial Statements.....	5-8



Buseck · Barger · Bleil & Co. Inc.

CERTIFIED PUBLIC ACCOUNTANTS
FRONTIER BUILDING
1640 WEST EIGHTH STREET - SUITE 1
ERIE, PA 16505

(814) 454-6341
FAX: (814) 455-9060
EMAIL: info@bbcpas.com

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Lake City Municipal Sewer Authority
Lake City, PA

We have audited the accompanying financial statements of the Lake City Municipal Sewer Authority, Erie County, Pennsylvania, a component unit of the Borough of Lake City, Erie County, Pennsylvania, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances, Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lake City Municipal Sewer Authority, Erie County, Pennsylvania as of December 31, 2019, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Busch, Banger, Bleil & Co. Inc.

Certified Public Accountants
Erie, Pennsylvania

LAKE CITY MUNICIPAL SEWER AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF LAKE CITY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Revenue Note 2000 Fund	Revenue Note 2018 Fund	Totals (Memo Only)
<u>ASSETS</u>				
Cash and equivalents	\$ 269,180	\$ -	\$ -	\$ 269,180
Amount to be provided for payment of deb	-	68,652	4,644,396	4,713,048
<u>Total Assets</u>	<u>\$ 269,180</u>	<u>\$ 68,652</u>	<u>\$ 4,644,396</u>	<u>\$ 4,982,228</u>
<u>Current Liabilities</u>				
Current portion of long-term debt	\$ -	\$ 36,996	\$ 215,448	\$ 252,444
<u>Total Current Liabilities</u>	<u>-</u>	<u>36,996</u>	<u>215,448</u>	<u>252,444</u>
<u>Long-Term Debt</u>				
Note payable, net of current portion	-	31,656	4,428,948	4,460,604
Total long-term debt	-	31,656	4,428,948	4,460,604
<u>Total Liabilities</u>	<u>-</u>	<u>68,652</u>	<u>4,644,396</u>	<u>4,713,048</u>
<u>Net Position</u>				
Restricted	269,180	-	-	269,180
<u>Total Liabilites and Fund Balance</u>	<u>\$ 269,180</u>	<u>\$ 68,652</u>	<u>\$ 4,644,396</u>	<u>\$ 4,982,228</u>

LAKE CITY MUNICIPAL SEWER AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF LAKE CITY
COMBINING STATEMENT OF NET REVENUES, EXPENDITURES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Revenue Note 2000 Fund	Revenue Note 2018 Fund	Totals (Memo Only)
<u>Operating Revenues</u>				
Lease rental payment	\$ 156,982	\$ -	\$ -	\$ 156,982
Earnings on investments	1,560	-	-	1,560
<u>Total Revenues</u>	<u>\$ 158,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 158,542</u>
<u>Operating Expenses</u>				
Engineering Fees	31,704	-	-	31,704
Legal and professional fees	6,531	-	-	6,531
Interest Expense	-	2,514	46,414	48,928
Construction project	518,067	-	-	518,067
Administrative expense	2,256	-	-	2,256
<u>Total Expenditures</u>	<u>558,558</u>	<u>2,514</u>	<u>46,414</u>	<u>\$ 607,486</u>
<u>Operating Income (Loss)</u>	<u>(400,016)</u>	<u>(2,514)</u>	<u>(46,414)</u>	<u>(448,944)</u>
<u>Non-operating Revenue (Expenses)</u>				
Proceeds from line of credit	-	-	412,832	412,832
Principal payments on debt	-	(35,953)	(83,454)	(119,407)
Fund transfers, net	244,497	38,467	(282,964)	-
<u>Total Non-operating Revenue (Expenses)</u>	<u>244,497</u>	<u>2,514</u>	<u>46,414</u>	<u>293,425</u>
<u>Increase (Decrease) in Net Position</u>	<u>(155,519)</u>	<u>-</u>	<u>-</u>	<u>(155,519)</u>
<u>Net Position, January 1, 2019</u>	<u>424,699</u>	<u>-</u>	<u>-</u>	<u>424,699</u>
<u>Net Position, December 31, 2019</u>	<u>\$ 269,180</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,180</u>

LAKE CITY MUNICIPAL SEWER AUTHORITY
A COMPONENT UNIT OF THE BOROUGHS OF LAKE CITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lake City Municipal Sewer Authority (the Authority) was formed for the purpose of financing constructions of additions and alterations to the Lake City Borough Sewer System. The sewer system is operated and maintained by the Borough of Lake City under a long-term lease with the Authority, as described in Note 3.

Reporting Entity

Under guidelines established for determining the component units of a reporting entity, the Authority is considered to be a blended component unit of the Borough of Lake City for purposes of its financial statements. Blended component units are, in substance, part of the primary government's (Lake City Borough) operations. Therefore, data from these units is combined with data of the sewer funds of the Borough.

These financial statements only include the activities of the component unit. Complete financial statements of the reporting entity may be obtained at the administration office of Lake City Borough, Lake City, Pennsylvania.

Basis of Accounting

The financial statements have been prepared on the modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Authority's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions.

Fund Accounting

In accordance with the terms of the trust indenture securing the bonded debt, monies of the Authority are accounted for by various funds. The funds are segregated for specific use and for the security of the bondholders and are maintained by an independent trustee. Monies in the several trust funds, including deposits bearing interest, must be insured or secured. The monies may be invested in time deposit accounts with the commercial banking department of the Trustee or in specified obligations of the U.S. Treasury, as provided for by law and the trust indenture.

Because the Authority will be fully reimbursed for its costs of servicing the bonded debt (no gain or loss will arise from the operation of the lease with the Borough of Lake City), the "financing method" for balance sheet accounting is employed. Under this method, future lease rentals to be received applicable to retirement of the bond issues are shown as receivable and the cost of the projects financed and constructed by the Authority is considered an asset of the Borough of Lake City.

Cash and Investments

Cash includes amounts in demand deposits. Cash also includes short-term investments and cash equivalents with a maturity date within three months of the date acquired.

Memorandum Only – Total Columns

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operation or changes in financial position in conformity with GAAP. Also, such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Estimates

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 – CASH

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practice. Deposits of the governmental funds are maintained in demand deposits and short-term certificates of deposit. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Authority. At December 31, 2019, the carrying amount and bank balance of the Authority's deposits were \$269,180. Of the carrying amount, no amounts were subject to custodial credit risk. The depositories secure the deposit of these funds, which are not covered by applicable Federal Deposit Insurance Corporation coverage in accordance with the Pooled Asset Pledging Law, Act 72 of the 1971.

NOTE 3 – LEASE AGREEMENTS

The Borough of Lake City operates and maintains the sewer system under a February 15, 1985 lease agreement (along with subsequent amendments). It expires October 1, 2021, or at such time as the Authority's debt may be retired, if earlier.

Minimum annual rentals payable at 110% of the debt service requirements on notes other than PennVest notes were required. The non-PennVest debt was retired as of December 31, 2019, therefore, there will be no future minimum lease payments required.

NOTE 4 – LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2019, was as follows:

	Balance			Balance	Amounts Due
	1/1/2019	Additions	Reductions	12/31/2019	Within 1 Year
Revenue Notes:					
2000 - PennVest	\$ 104,605	\$ -	\$ 35,953	\$ 68,652	\$ 36,996
2018 - PennVest	4,315,018	412,832	83,454	4,644,396	215,448
Total Long-Term Debt	\$ 4,419,623	\$ 412,832	\$ 119,407	\$ 4,713,048	\$ 252,444

In August of 2000, the Authority agreed to borrow up to \$605,000 from PennVest (Revenue Note 2000) for the purpose of improvements to the sewer system. The term of the loan is for 20 years (240 months) and allows for an additional construction period of up to 15 months to precede the 20 year principal payments period. During the construction period there are no principal repayment requirements, however, interest is required to be paid on a monthly basis. The interest rate for the first 75 months (the construction period plus the first 60 months of principal and interest repayments) is 1.421%. The rate for the remaining 180 months will be 2.842%. The monthly payment on the loan is approximately \$2,897 for 60 months and \$3,206 for 180 months. Principal and interest payments made during 2019 were \$35,953 and \$2,514, respectively. The balance due at December 31, 2019 was \$68,652.

In April of 2018, the Authority agreed to borrow up to \$5,063,240 from PennVest (Revenue Note 2018) for the purpose of complete renovation to the outdated sewer system. The term of the loan is for 21 years (256 months) and allows for an additional construction period of up to 15 months to precede the 20 year principal payments period. During the construction period there are no principal repayment requirements, however, interest is required to be paid on a monthly basis. The interest rate for the first 36 months is 1.000%. The rate for the remaining 220 months will be 1.742%. The monthly payment on the loan is 21,743 for 60 months after the interest only period ends and \$22,949 for the remaining 160 months. An additional \$412,832 was incurred on the principal balance owed in 2019. Principal and interest payments made during 2019 were \$83,454 and \$46,234, respectively. The balance due at December 31, 2019 was \$4,644,396.

The required annual principal and interest payments on long-term debt as of December 31, 2019, are as follows:

Year	Principal	Interest	Total
2020	\$ 252,444	\$ 46,941	\$ 299,385
2021	249,280	43,708	292,988
2022	219,810	41,108	260,918
2023	222,018	38,899	260,917
2024	221,217	43,319	264,536
Thereafter	3,548,279	472,952	4,021,231
	<u>\$ 4,713,048</u>	<u>\$ 686,927</u>	<u>\$ 5,399,975</u>

NOTE 5 – SUBSEQUENT EVENTS

There were no other subsequent events that needed to be disclosed in the financial statements. These financial statements considered subsequent events through February 3, 2020, the date the financial statements were available to be issued.