

***LAKE CITY MUNICIPAL
SEWER AUTHORITY***

FINANCIAL STATEMENTS

Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Lake City Municipal Sewer Authority
Erie County, Pennsylvania

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, 2017, 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 accounting principles generally accepted in the United States of America; this includes 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lake City Municipal Sewer Authority, Erie County, Pennsylvania as of December 31, 2017, 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 require to be presented to supplement the financial statements. Such missing information, although not a 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.

Monahan & Monahan

Monahan & Monahan, P.C.
Certified Public Accountants

February 8, 2018

LAKE CITY MUNICIPAL SEWER AUTHORITY
 COMBINED BALANCE SHEET
 December 31, 2017

	Operating Fund	Revenue Note 2000 Fund	Revenue Note 2015 Fund	Revenue Note 2016 Fund	Totals (Memorandum Only)
<u>ASSETS</u>					
Cash and equivalents	\$ 8,919	\$ —	\$ —	\$ —	\$ 8,919
Amount to be provided for payment of debt	—	139,559	203,461	949,678	1,292,698
Total assets	\$ 8,919	\$ 139,559	\$ 203,461	\$ 949,678	\$ 1,301,617
 <u>LIABILITIES AND FUND EQUITY</u>					
Current liabilities:					
Current portion of long-term debt	\$ —	\$ 34,954	\$ —	\$ —	\$ 34,954
Total current liabilities	—	34,954	—	—	34,954
Long-term debt:					
Note payable	—	—	203,461	949,678	1,153,139
Bond payable, net of current portion	—	104,605	—	—	104,605
Total long-term debt	—	104,605	203,461	949,678	1,257,744
Total liabilities	—	139,559	203,461	949,678	1,292,698
Fund balance, reserved as required by terms of the trust indenture	8,919	—	—	—	8,919
Total liabilities and fund balance	\$ 8,919	\$ 139,559	\$ 203,461	\$ 949,678	\$ 1,301,617

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

LAKE CITY MUNICIPAL SEWER AUTHORITY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2017

	<u>Operating Fund</u>	<u>Revenue Note 2000 Fund</u>	<u>Revenue Note 2015 Fund</u>	<u>Revenue Note 2016 Fund</u>	<u>Totals (Memorandum Only)</u>
Revenues					
Lease rental payment	\$ 299,370	\$ —	\$ —	\$ —	\$ 299,370
Earnings on investments	<u>6</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6</u>
Total revenues	<u>299,376</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>299,376</u>
Expenditures					
Engineering fees	155,300	—	—	—	155,300
Legal and professional fees	31,770	—	—	—	31,770
Interest expense	—	4,498	6,008	25,834	36,340
Construction project	486,100	—	—	—	486,100
Repairs and maintenance	2,400	—	—	—	2,400
Administrative expense	<u>4,528</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,528</u>
Total expenditures	<u>680,098</u>	<u>4,498</u>	<u>6,008</u>	<u>25,834</u>	<u>716,438</u>
Excess of revenues over (under) expenditures	<u>(380,722)</u>	<u>(4,498)</u>	<u>(6,008)</u>	<u>(25,834)</u>	<u>(417,062)</u>
Other financing sources (uses)					
Proceeds from line of credit	—	—	193,000	—	193,000
Principal payments on debt	—	(33,969)	(220,000)	—	(253,969)
Fund transfers, net	<u>(97,309)</u>	<u>38,467</u>	<u>33,008</u>	<u>25,834</u>	<u>—</u>
Total of financing sources (uses)	<u>(97,309)</u>	<u>4,498</u>	<u>6,008</u>	<u>25,834</u>	<u>(60,969)</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	<u>(478,031)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(478,031)</u>
Fund balance, January 1,	<u>486,950</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>486,950</u>
Fund balance, December 31,	<u>\$ 8,919</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,919</u>

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

LAKE CITY MUNICIPAL SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1 - Summary of Significant Accounting Policies

General

The Lake City Municipal Sewer Authority (the Authority) was formed for the purpose of financing construction 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.

The Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

In June 1999, GASB unanimously approved No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Required changes are reflected in the accompanying financial statements (including notes to financial statements).

Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so.

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 accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Interest on long-term debt is recorded as a fund liability when due.

LAKE CITY MUNICIPAL SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1 - Summary of Significant Accounting Policies continued.....

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.

Evaluation of Subsequent Events

The Authority has evaluated subsequent events through February 8, 2018, the date which the financial statements were available to be issued.

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.

LAKE CITY MUNICIPAL SEWER AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

Note 2 - Cash continued.....

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, 2017, the carrying amount and bank balance of the Authority's deposits were \$8,919

Note 3 - Lease Agreement

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

Minimum annual rentals payable are 110% of the debt service requirements of the notes as more fully described in Note 4, plus additional rentals deemed necessary for annual administration expenses. In 2017 the additional 10% rental was waived in lieu of a \$2,000 administrative expense reimbursement. The following is a schedule of future minimum lease payments for each of the five succeeding years and thereafter:

Year Ending December 31,

	2018		\$	75,115
	2019			75,216
	2020			275,856
	2021			998,558
	2022			—
	Thereafter			—
				\$ 1,424,745

Note 4 - Long-Term Debt

Long-term debt activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Notes:					
2000 - PennVest	\$ 173,528	\$ —	\$ (33,969)	\$ 139,559	\$ 34,954
2015 - Andover	230,461	193,000	(220,000)	203,461	—
2016 - Andover	<u>949,678</u>	<u>—</u>	<u>—</u>	<u>949,678</u>	<u>—</u>
	<u>\$ 1,353,667</u>	<u>\$ 193,000</u>	<u>\$ (253,969)</u>	<u>\$ 1,292,698</u>	<u>\$ 34,954</u>

LAKE CITY MUNICIPAL SEWER AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

Note 4 - Long-Term Debt continued.....

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 payment 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 repayment) 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 2017 were \$33,969 and \$4,498, respectively. The balance due at December 31, 2017 was \$139,559.

In August of 2015, the Authority agreed to borrow up to \$600,000 by way of an unsecured line of credit from Andover Bank (Revenue Note 2015) for the purpose of improvements to the sewer system. The Authority and the Borough of Lake City have agreed that the debt service requirements of this loan are not subject to the 110% requirement referred to in Note 3. The line of credit is for 59 months with interest due quarterly at a fixed interest rate of 2.875%. Principal and interest payments made during 2017 were \$220,000 and \$6,008, respectively. The balance due at December 31, 2017 was \$203,461.

In May of 2016, the Authority agreed to borrow up to \$950,000 by way of an unsecured line of credit from Andover Bank (Revenue Note 2016) for the purpose of purchasing necessary sewer improvements under an existing contract. The Authority and the Borough of Lake City have agreed that the debt service requirements of this loan are not subject to the 110% requirement referred to in Note 3. The line of credit is for 59 months with interest due quarterly at a fixed interest rate of 2.875%. Principal and interest payments made during 2017 were \$ -0- and \$25,834, respectively. The balance due at December 31, 2017 was \$949,678.

The required annual principal and interest payments on long-term debt as of December 31, 2017 are as follows:

Year Ending December 31,	Principal	Interest
2018	\$ 34,954	\$ 36,666
2019	35,960	35,660
2020	240,457	31,699
2021	981,327	14,065
2022	—	—
Thereafter	—	—
	\$ 1,292,698	\$ 118,090