

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

Financial Statements

For the Year Ended December 31, 2023

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

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INDEPENDENT AUDITOR'S REPORT

To the Members of Lake City Municipal Sewer Authority
Lake City, Pennsylvania

Opinions

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Lake City Municipal Sewer Authority, a component unit of the Borough of Lake City, Pennsylvania, as of and for the year ended December 31, 2023, 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 of the Lake City Municipal Sewer Authority, as of December 31, 2023, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in 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 the Lake City Municipal Sewer Authority and to meet out 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 statement 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 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 with 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 judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement 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 Lake City Municipal 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lake City Municipal 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 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.

Buseck, Barger, Bleil & Co. Inc.

Certified Public Accountants

Erie, Pennsylvania

**LAKE CITY MUNICIPAL SEWER AUTHORITY
LAKE CITY, PA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2023**

The discussion and analysis of the Lake City Municipal Sewer Authority's financial performance provides an overall review of the Authority's financial activities for the year ended December 31, 2023. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Authority's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

OVERVIEW OF FINANCIAL STATEMENTS

The Authority's basic financial statements are comprised of two components: 1) enterprise fund financial statements and 2) notes to the financial statements.

Enterprise Fund Financial Statements

The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. The statement of revenues, expenses and changes in net assets shows how the Authority's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future years, (e.g., investment income earned but not received). The statement of cash flows reconciles the change in net assets reported on the statement of revenues, expenses, and changes in net assets to the increase or decrease in cash reported for the year.

Notes to the Financial Statements

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's total net assets were \$91,911 and \$97,004 at December 31, 2023 and 2022, respectively.

Table A-1
Fiscal Year ended December 31, 2023 and 2022
Net Assets

	<u>2023</u>	<u>2022</u>
Assets		
Cash and equivalents	\$91,911	\$97,004
Amount to be provided for payment of debt	<u>3,769,497</u>	<u>3,991,515</u>
Total Assets	<u>3,861,408</u>	<u>4,088,519</u>
Liabilities		
Current portion of long-term debt	221,217	222,018
Note payable, net of current portion	<u>3,548,280</u>	<u>3,769,497</u>
Total Liabilities	<u>3,769,497</u>	<u>3,991,515</u>
Net Assets		
Restricted	<u>91,911</u>	<u>97,004</u>
Total Net Assets	<u>\$ 91,911</u>	<u>\$ 97,004</u>

Most of the Authority's net assets are restricted for capital activity and debt service.

The results of this year's operations as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (Exhibit II). Table A-2 takes the information from that Statement, rearranges it slightly, to present total revenues and expenses for the year.

Table A-2
Fiscal Year ended December 31, 2023 and 2022
Changes in Net Assets

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Lease rental income	\$ 260,917	\$ 260,917
Earnings on investments	<u>1,646</u>	<u>2,013</u>
Total revenues	<u>\$ 262,563</u>	<u>\$ 262,930</u>
Operating Expenses		
Lake City Borough - Construction Project	\$ -	\$ 96,988
Interest on long-term debt	38,899	41,107
Other operating expenses	<u>6,739</u>	<u>9,800</u>
Total expenses	<u>\$ 45,638</u>	<u>\$ 147,895</u>
Net Income from Operations	\$ 216,925	\$ 115,035
Non-Operating Revenue (Expense)	<u>(222,018)</u>	<u>(219,810)</u>
Increase (Decrease) in Net Assets	<u>\$ (5,093)</u>	<u>\$ (104,775)</u>

During 2023, the Authority's revenues exceeded its expenses by \$216,925. Compared to 2022, revenues decreased \$367 (0.1%). This decrease was the result of decreased lease rental payments from the Borough of Lake City. Expenses decreased \$102,257 (69.1%) from 2022. The decrease was due to no construction expenditures in 2023.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The authority considers itself to be primarily a financing authority, and not an operating authority. The system includes wastewater collection, conveyance, and treatment facilities which are owned by the Authority and operated by Lake City Borough in accordance with the terms of a leaseback agreement. The Borough operates and has exclusive possession of the wastewater treatment plant, four lift stations and all associated facilities. In 2019, a comprehensive construction project to upgrade the wastewater treatment plan was completed. The project costs were approximately \$4.7 million, funded with a 20-year low-interest Pennsylvania Infrastructure Investment Authority (PennVest) loan. The improvements constructed in the completed project will help increase the wastewater treatment plant's capacity and efficiency and help reduce future long-term wastewater treatment costs. The Authority is currently working on adding sewer lines to unserved areas in Lake City. At this time, they have not incurred any additional debt to pay for these small projects.

Debt Administration

As of January 1, 2023, the Authority had total outstanding notes payable of \$3,991,515. The Authority made principal payments of \$222,018, resulting in ending outstanding debt as of December 31, 2023 of \$3,769,497. More detailed information about long-term liabilities is included in Note 4 of the financial statements.

CAPITAL IMPROVEMENT PLAN

The Lake City Borough operates and maintains the sewer system under a February 15, 1985 lease agreement, as amended, now being a Sixth Amended Lease Agreement. Lake City Borough pays lease rental payments to the Authority, and the Authority uses those payments to pay the Authority's long-term debt obligations. Any future construction or projects will be funded in a similar manner.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Lake City Municipal Sewer Authority, 2350 Main Street, Lake City, PA 16423.

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, 2023

	<u>Operating Fund</u>	<u>Revenue Note 2018 Fund</u>	<u>Totals (Memo Only)</u>
<u>Assets</u>			
Cash and equivalents	\$ 91,911	\$ -	\$ 91,911
Amount to be provided for payment of debt	-	3,769,497	3,769,497
<u>Total Assets</u>	<u>\$ 91,911</u>	<u>\$ 3,769,497</u>	<u>\$ 3,861,408</u>
 <u>Liabilities</u>			
<u>Current Liabilities</u>			
Current portion of long-term debt	\$ -	\$ 221,217	\$ 221,217
<u>Total Current Liabilities</u>	-	221,217	221,217
<u>Long-Term Liabilities</u>			
Note payable, net of current portion	-	3,548,280	3,548,280
<u>Total Long-Term Liabilities</u>	-	3,548,280	3,548,280
<u>Total Liabilities</u>	-	3,769,497	3,769,497
 <u>Net Position</u>			
Restricted	91,911	-	91,911
<u>Total Liabilities and Net Position</u>	<u>\$ 91,911</u>	<u>\$ 3,769,497</u>	<u>\$ 3,861,408</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, 2023

	Operating Fund	Revenue Note 2018 Fund	Totals (Memo Only)
<u>Operating Revenues</u>			
Lease rental payment	\$ 260,917	\$ -	\$ 260,917
Earnings on investments	1,646	-	1,646
<u>Total Revenues</u>	<u>262,563</u>	<u>-</u>	<u>262,563</u>
<u>Operating Expenses</u>			
Engineering Fees	1,343	-	1,343
Legal and professional fees	4,065	-	4,065
Interest Expense	-	38,899	38,899
Administrative expense	1,331	-	1,331
<u>Total Expenditures</u>	<u>6,739</u>	<u>38,899</u>	<u>45,638</u>
<u>Operating Income (Loss)</u>	<u>255,824</u>	<u>(38,899)</u>	<u>216,925</u>
<u>Non-Operating Revenue (Expenses)</u>			
Principal payments on debt	-	(222,018)	(222,018)
Fund transfers - net	(260,917)	260,917	-
<u>Total Non-Operating Revenue (Expenses)</u>	<u>(260,917)</u>	<u>38,899</u>	<u>(222,018)</u>
<u>Increase (Decrease) in Net Position</u>	<u>(5,093)</u>	<u>-</u>	<u>(5,093)</u>
<u>Net Position, January 1, 2023</u>	<u>97,004</u>	<u>-</u>	<u>97,004</u>
<u>Net Position, December 31, 2023</u>	<u>\$ 91,911</u>	<u>\$ -</u>	<u>\$ 91,911</u>

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

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, 2023, the carrying amount and bank balance of the Authority's deposits were \$91,911. 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). The sixth amendment expires August 1, 2039, or at such time as the Authority's debt may be retired, if earlier.

The Borough agrees by the way of additional rent to attend all payment obligations on the Authority's Pennvest 2018 Revenue Note, the only remaining debt obligation at December 31, 2023.

NOTE 4 – LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2023, was as follows:

	<u>Balance</u> <u>1/1/2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2023</u>	<u>Amounts Due</u> <u>Within 1 Year</u>
Revenue Notes:					
2018 - PennVest	\$ 3,991,515	\$ -	\$ 222,018	\$ 3,769,497	\$ 221,217
Total Long-Term Debt	<u>\$ 3,991,515</u>	<u>\$ -</u>	<u>\$ 222,018</u>	<u>\$ 3,769,497</u>	<u>\$ 221,217</u>

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 2023 were \$222,018 and \$38,899, respectively. The balance outstanding at December 31, 2023 was \$3,769,497.

The required annual principal and interest payments on long-term debt as of December 31, 2023, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	221,217	43,319	264,536
2025	215,295	60,097	275,392
2026	219,075	56,317	275,392
2027	222,922	52,470	275,392
2028	226,837	48,556	275,393
Thereafter	<u>2,664,151</u>	<u>255,512</u>	<u>2,919,663</u>
	<u>\$ 3,769,497</u>	<u>\$ 516,271</u>	<u>\$ 4,285,768</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 10, 2024, the date the financial statements were available to be issued.