

**LOWER PAXTON
TOWNSHIP AUTHORITY**

**YEAR ENDED
DECEMBER 31, 2019**



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

LOWER PAXTON TOWNSHIP AUTHORITY

YEAR ENDED DECEMBER 31, 2019

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Independent Auditor's Report

Board of Supervisors
Lower Paxton Township Authority
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Lower Paxton Township Authority (the Authority), a component unit of Lower Paxton Township, 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 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 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 Lower Paxton Township Authority, a component unit of Lower Paxton Township, as of December 31, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining financial statements on pages 35 through 39 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Correction of errors

As described in Note 10 to the financial statements, the beginning net position of the Authority has been restated to correct errors related to improper recognition of derivative investment losses in the prior year and the failure to record developer contributions for the years ending December 31, 2013 through December 31, 2018. Our opinion is not modified with respect to this matter.

Brown Schultz Steidman & Fritz

Camp Hill, Pennsylvania
August 20, 2020

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

The Management's Discussion and Analysis (MD&A) is a component part of the reporting model adopted by the Governmental Accounting Standards Board (GASB), as referenced in Statement No. 34 issued in June 1999. The intent of this MD&A is to summarize Lower Paxton Township Authority's (Authority) financial performance as a whole, in part, using comparative information from the current year analyzed against prior years.

The Authority's MD&A presents a narrative overview and analysis of the Authority's financial performance for the fiscal year ended December 31, 2019. It is recommended that it be read in conjunction with the accompanying basic financial statements and notes to the financial statements in order to obtain a thorough understanding of the Authority's financial condition as of December 31, 2019.

FINANCIAL HIGHLIGHTS

The following are key financial highlights. The Authority continues to implement the Second Amendment to the Second Consent Decree (Second Amendment) and the ACT 537 Plan with the Pennsylvania Department of Environmental Protection (PADEP), which was entered into on September 18, 2013 to eliminate the hydraulic overloads in the sewer system, including the Beaver, Paxton and Spring Creek 1 drainage basins. The Second Amendment includes specific Corrective Action Plans (CAP's) for each drainage basin to eliminate the hydraulic overload in Spring Creek 1 by December 31, 2016, in Paxton Creek by June 30, 2027 and in Beaver Creek by September 18, 2033. The Spring Creek 1 CAP has been completed on schedule, and the Beaver Creek and Paxton Creek CAP's are currently on schedule. A total of \$114 Million has been spent to date on the sewer replacement programs in the Beaver, Paxton and Spring Creek 1 drainage basins. To complete the approved CAP's in the Beaver and Paxton Creek Basins, and the Spring Creek 2 Basin, the Authority will need to finance an additional \$107 Million, \$34 Million in Paxton Creek, \$62 Million in Beaver Creek and \$11 Million in the Spring Creek 2 Basin.

In 2019, the Authority began implementation of the Stormwater Management Program. This significantly increased operating revenues with the implementation of the stormwater fee. In 2019, the Authority received \$3,017,691 in fees. The Authority's total capital asset net position also significantly increased with the transfer of the stormwater system from Lower Paxton Township to the Authority, which increased the asset contributions by \$15,434,586. The Stormwater Fund Capital Budget includes a five-year spending plan to comply with the Municipal Separate Storm Sewer System (MS4) permit and Pollution Reduction Plan (PRP) plan with the PADEP. This five-year capital plan is estimated at \$16 Million, which includes an estimated cost of \$6 Million for the PRP and \$10 Million for stormwater system pipe replacements over a five-year period.

As of December 31, 2019, the amount of restricted and unrestricted funds available for continuing sanitary sewer and stormwater capital projects is \$33,706,538, which represents \$21,604,433 for sanitary sewer and \$12,102,105 for stormwater.

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of five parts: management's discussion and analysis; statement of net position; statement of revenues, expenses and changes in net position; statement of cash flows and notes to financial statements.

These statements offer short- and long-term financial information about the Authority's activities.

The statement of net position provides information about the Authority's assets and serves as a useful indicator of the entity's financial position. Increases and decreases in net position show whether the financial condition is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has recovered all of its costs in maintaining the sewer system.

The Authority's rates are based on a study performed by its consulting engineer as part of the recent Subsidy Agreement for the repayment of debt with the Township. This study is updated annually as part of the annual budget approval process and the ongoing Act 537 Plan.

The statement of cash flows provides information about the Authority's cash flows from operating activities, capital and related financing activities and investing activities. The statement reports cash receipts, cash payments and net changes in cash from each of these activities during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of the data in the statements. The notes present information about the Authority's accounting policies, deposits and investments, long-term debt, advance refundings, commitments, policy on interest and legal agreements that may affect the operation of the Authority.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was incorporated on June 11, 1951, and the Articles of Incorporation were amended on April 30, 1954, changing the name to the Lower Paxton Township Authority for the purpose of financing, construction and maintenance of sewerage facilities. In 2002, the Authority amended the Articles of Incorporation to increase the members from five to seven, and in 2009, the term of existence was amended to again extend the term existence to 2058. On November 16, 2018, the Authority amended the Articles of Incorporation to change the purpose of the Authority to add in stormwater management and implementation including, among other things, the holding, constructing, maintaining and operating the collection and transmission of stormwater facilities.

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - (UNAUDITED)
YEAR ENDED DECEMBER 31, 2019

SUMMARY OF ORGANIZATION AND BUSINESS (CONTINUED)

Following the amendments to the Articles of Incorporation, the Authority performed the following actions: filed a Quit Claim Deed to transfer the stormwater system to the Authority, amended the Management Agreement with the Township to add in operations of the Authority stormwater system, appointed HRG as the Authority Stormwater Engineer, approved an Operations and Capital Budget, established the Stormwater Management Fee and adopted a revised billing and collections policy to include stormwater with the sanitary sewer bill.

The Authority is an independent organization directed by the seven Board members appointed by the Lower Paxton Township Supervisors for staggered five-year terms. The Authority has regularly scheduled monthly meetings but typically meets the fourth Tuesday of the second month in each calendar quarter. The Authority sewer system consists 280 miles of sanitary sewers, ranging in size from 8" to 30"; 4 pumping stations; a sewer operations facility and various major equipment including the Aeries Televising Equipment and various sewer construction equipment. The stormwater water conveyance system consists of 121 miles of stormwater conveyance facilities. Equipment is rented by the Authority from the Public Works Department, including the street sweeping and leaf collection equipment associated with the MS4 program.

The Authority entered into an Interim Management Agreement with the Township at the beginning of 1995 and finalized the agreement in 1997. As noted above, the Management Agreement was recently revised on November 27, 2018 to add in stormwater management. Under the Management Agreement, the Township provides administration, operation and maintenance services including all labor, equipment and materials necessary for the efficient operations of the Authority's sanitary sewer system and stormwater conveyance system. The Authority retains ownership of the sewer system and stormwater conveyance system and all property, and the Township owns all personal equipment, excluding major equipment.

In consideration of the sanitary sewer and stormwater services rendered by the Township under the Management Agreement, the Authority reimburses the Township on a monthly or quarterly basis, as applicable. For services rendered by the Township Sewer Department Administration and Operations staff for the stormwater conveyance operations, and stormwater fee billing, an allocated percentage share of the employees' salaries are allocated to the stormwater fund expense budget and reimbursed back to the sanitary sewer fund budget.

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - (UNAUDITED)
YEAR ENDED DECEMBER 31, 2019

FINANCIAL ANALYSIS

The following comparative Tables A-1 and A-2 are condensed financial statements that provide key financial data over the reporting period. Additional financial highlights for 2018 are provided after each table as supporting information.

Table A-1
Statements of net position
December 31, 2019 and 2018

	December 31, 2019	(Restated) December 31, 2018
Current and other assets	\$ 29,092,862	\$ 24,435,115
Capital assets	146,358,320	130,673,618
Other noncurrent assets	11,786,103	4,435,515
Total assets	<u>\$ 187,237,285</u>	<u>\$ 159,544,248</u>
Deferred outflows of resources	<u>\$ 279,222</u>	<u>\$ 353,155</u>
Current liabilities	8,945,219	6,120,147
Long-term liabilities	122,095,836	114,781,569
Total liabilities	<u>\$ 131,041,055</u>	<u>\$ 120,901,716</u>
Net investment in capital assets	\$ 29,579,010	\$ 13,261,606
Restricted	11,786,103	4,435,515
Unrestricted	15,110,339	21,298,566
Total net position	<u>\$ 56,475,452</u>	<u>\$ 38,995,687</u>

Total net position increased from 2018 to 2019. This is primarily due to stormwater asset contributions from Lower Paxton Township to the Authority. Non-current assets also increased with the stormwater program funding. Liabilities increased with the sanitary sewer transmission and treatment liability with Capital Region Water (CRW).

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

FINANCIAL ANALYSIS (CONTINUED)

Table A-2
Statements of revenues and expenses
Years ended December 31, 2019 and 2018

	<u>December 31, 2019</u>	<u>(Restated) December 31, 2018</u>
Revenues:		
Operating revenues:		
Sewer rentals	\$ 16,165,144	\$ 16,028,300
Stormwater fees	3,017,691	
Other		3,410
Miscellaneous	13,107	10,478
Total operating revenues	<u>19,195,942</u>	<u>16,042,188</u>
Non-operating revenues:		
Tapping fees	727,419	620,311
Sale of assets	40,354	36,085
Developer contributions	1,058,101	293,470
Township contributions	15,434,586	
Interest Income	1,100,869	1,083,396
Total non-operating revenues	<u>18,361,329</u>	<u>2,033,262</u>
Total revenues	<u>37,557,271</u>	<u>18,075,450</u>
Expenses:		
Operating expenses:		
Treatment and transmission charges	5,782,788	3,575,674
Sewer maintenance	107,192	123,852
Legal and accounting	355,480	371,809
Engineering	164,230	122,530
Office, insurance, trustee fees, employee and miscellaneous expenses	365,581	241,172
Reimbursements to Lower Paxton Township	3,375,678	2,413,298
Private source repairs	95,479	131,878
Other	340,959	201,811
Depreciation and amortization	3,966,567	3,317,311
Total operating expenses	<u>14,553,954</u>	<u>10,499,335</u>
Non-operating expenses:		
Interest	4,999,164	5,181,926
Bond issue costs	524,388	
Total non-operating expenses	<u>5,523,552</u>	<u>5,181,926</u>
Total expenses	<u>20,077,506</u>	<u>15,681,261</u>
Change in net position	<u>\$ 17,479,765</u>	<u>\$ 2,394,189</u>

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

FINANCIAL ANALYSIS (CONTINUED)

Total operating revenues increased significantly in 2019 due to the implementation of the stormwater fee. Expenses increased significantly with the increase in sanitary sewer treatment and transmission expenses and the implementation of the stormwater management program, which increased the reimbursement to the Township.

CAPITAL ASSETS

The Authority's capital assets at December 31, 2019, net of accumulated depreciation, was \$146,358,320. Capital assets consist primarily of the sewer and stormwater collection and conveyance systems and deferred capacity costs. The following is a summary of capital assets at December 31, 2019:

	2019	(Restated) 2018
	<u>2019</u>	<u>2018</u>
Land	\$ 1,540,192	\$ 1,540,192
Intangibles (non-depreciable)	2,740,869	2,740,869
Buildings	1,116,145	1,116,145
Machinery and equipment	783,561	680,015
Furniture	19,299	19,299
Sewer system	162,753,061	159,877,306
Stormwater system	16,632,444	
Sewer capacity costs	21,144,628	21,144,628
Accumulated depreciation	<u>(60,371,879)</u>	<u>(56,444,835)</u>
	<u>\$ 146,358,320</u>	<u>\$ 130,673,619</u>

Detailed information about the Authority's capital assets can be found in Note 3 of the financial statements.

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

DEBT ADMINISTRATION

The Authority's long-term debt activity for 2019 is as follows and is detailed in Note 4 to the financial statements:

<u>Type</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Lower Paxton Township, subsidy agreements:				
G.O. Series Bonds	\$ 106,520,000	\$ 48,150,000	\$(44,795,000)	\$ 109,875,000
Pennvest loan	<u>7,472,292</u>		<u>(451,840)</u>	<u>7,020,452</u>
Total long-term debt	<u>\$ 113,992,292</u>	<u>\$ 48,150,000</u>	<u>\$(45,246,840)</u>	<u>\$ 116,895,452</u>

At the end of 2019, the Authority had a total long-term debt, net of current maturities, in the amount of \$113,554,251 based on amounts under subsidy agreements with the Township.

The Authority agrees to pay the Township, from receipts and revenues from its sewer system, amounts sufficient to pay the Authority's portion of the principal and interest on the bonds. The subsidy agreements contain various covenants of the Authority, including a covenant to impose and collect sewer rentals in each year sufficient, with other funds, to pay the operation and maintenance expenses, including amounts due in accordance with the terms of the subsidy agreements for amounts payable for debt service on the bonds issued.

In April 2010, the Township, on behalf of the Authority, obtained a Pennsylvania Infrastructure Investment Authority (PENNVEST) loan in the final amount of \$10,901,017, of which all had been drawn down as of December 31, 2015. The loan carries an interest rate of 2.445% for years 1-5 and a rate of 3.133% years 5-maturity. The loan is scheduled to mature on June 1, 2032. As of December 31, 2019, the outstanding balance was \$7,020,452. In October 2019, the Township, on behalf of the Authority, settled on a PENNVEST low interest loan in the amount of \$13,354,113 with an interest rate of 1.512% for years 1-5 and 2.063% for years 6-20. Subsequently the Authority entered into a Subsidy Agreement with the Township in August 2019 agreeing to pay the Township, from receipts and revenues from its sewer system, amounts sufficient to pay the Authority's portion of the principal and interest on the PENNVEST Loan when and as the same becomes due. As of December 31, 2019, no monies have been drawn on the loan.

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

GENERAL TRENDS AND SIGNIFICANT EVENTS

On September 18, 2013, the Commonwealth Court approved the Second Amendment which incorporates each specific Corrective Action Plan (CAP) for each specific drainage basin to eliminate the hydraulic overload in Spring Creek by December 31, 2016, in Paxton Creek by June 30, 2027 and in Beaver Creek by September 18, 2033. The Spring Creek 1 CAP has been completed on schedule, and the Beaver Creek and Paxton Creek CAP's are on schedule. The Second Beaver Creek Basin CAP is a 15-year sewer replacement program similar to the Paxton Creek CAP, which includes the replacement of all Asbestos Cement Pipe (ACP) and Vitrified Clay Pipe (VCP) and includes the replacement of all private sewers. A total of \$114 Million has been spent to date on the sewer replacement programs in the Beaver, Paxton and the Spring Creek 1 drainage basins. To complete the approved CAP's in the Beaver and Paxton Creek Basins, and the Spring Creek 2 Basin, the Authority will need to finance an additional \$107 Million, \$34 Million in Paxton Creek, \$62 Million in Beaver Creek and \$11 Million in the Spring Creek 2 Basin. The Authority has also begun implementation of the Stormwater Management Program. The Capital Budget includes a five-year spending plan to comply with the MS4 permit/PRP plan with the PADEP. This five-year capital plan is estimated at \$16 Million, which includes an estimated cost of \$6 Million for the PRP and \$10 Million for stormwater system pipe replacements over a five-year period.

The Second Amendment to the Second Consent Decree and Settlement Agreement imposes a limitation on planning modules in the Beaver Creek Basin each year with a maximum of 200 equivalent dwelling units per year and a limitation of 168 connections each year, provided that the Authority is in compliance with the plan and schedule and shows a reduction in flows to the sewer system. The Settlement Agreement provides for the accumulation of unused planning module EDU's and connection permits. At the end of 2019, the total accumulated EDU's and connections permits is 923 EDU's and 390 connections, respectively. Paxton Creek is allocated 93 connections annually, and there are no restrictions on planning modules. The Authority is permitted to receive an increase of ten connections per year for each completed mini-basin project. In 2019, the Authority requested an additional 150 connections for completing 15 projects over the past ten years. On March 21, 2019, the Authority received approval of the additional 150 connections. The Spring Creek Basin is provided two connections annually, and there are no planning module restrictions.

In September 2019, the Township settled on the General Obligation Bonds Series of 2019 to refund the Series D of 2009 Federally Taxable-Build America Bonds in the amount of \$42,500,000, to issue new money in the amount of \$10,242,000 for stormwater capital projects and to fund a payment associated with the amendment of an Interest Rate Management Agreement in the amount of \$1,843,000. In February 2016, the Township and Lower Paxton Township Authority entered into a Subsidy Agreement, whereby the Authority is obligated to satisfy the annual debt service requirement on \$23,840,000 of the aggregate principal amounts of the Series of 2016 Bonds. The Series of 2016 Bond funds are obligated to complete the Second Amendment projects in the Beaver Creek and Paxton Creek basin. All funds are under contract and are scheduled to be drawn down in October 2020. The Consulting Engineer for the Authority has presented plans to authorize the issuance of GO Bonds Series of 2020 in the amount of \$29 Million by October 2020 to replenish the projected depleted Capital Funds in order to complete the next three-year Consent Decree projects.

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2019

GENERAL TRENDS AND SIGNIFICANT EVENTS (CONTINUED)

The Authority Engineer has prepared a long-term "financing plan" for the Authority which indicates additional financing will be required to complete the Second Amendment projects and the future Spring Creek 2 projects not part of the Second Amendment. Based on the Engineer's current projections, the total cost to complete the projects is estimated at \$107 Million. Additional financing is anticipated in 2020, 2023, 2026, 2029 and 2032. This plan anticipates delaying storage in Paxton Creek until 2040 and an additional financing at that time to complete this project which is not part of the \$107 Million estimate.

RESULTS OF OPERATIONS

The Authority's revenues from operations are essentially from sewer rental charges to its customers in Lower Paxton Township. Sewer rental charges are based on a flat rate for residential customers and a cost per gallon used with a minimum charge for commercial accounts. Sewer rental revenues remained constant in 2019 at \$153 per quarter. However, total operating revenues increased significantly in 2019 due to the implementation of the stormwater fee. The fee is based on Equivalent Residential Units (ERU's) which is equal to 3,400 square feet of impervious surface. Residential customers are assessed a flat rate charge of \$32 per quarter, and commercial customers are assessed based upon the number of ERU's at the rate of \$32/ERU.

Operating expenses increased significantly with the implementation of the stormwater management program. The total assets and total liabilities increased in 2019 as a result of the cash-settling swap amendments, and debt associated with the sanitary sewer system and stormwater program with the implementation of the Second Amendment to the Second Consent Decree and the DEP MS4/PRP, respectively.

FINANCIAL CONDITION

The Authority's financial condition remained strong at year end with sufficient liquid assets to complete the sanitary sewer corrective action plans of the Authority as required by the Second Amendment with PADEP and the DEP stormwater MS4/PRP. However, the Authority anticipates that additional funds will be required to complete the Second Amendment which requires the implementation of the Third Paxton Creek Corrective Action Plan to eliminate the hydraulic overload in the Paxton Creek Basin by 2027, the Second Beaver Creek Corrective Action Plan to eliminate the overload in the Beaver Creek Basin by September 2033, future projects required in the Spring Creek 2 drainage basin and future projects to complete the DEP Stormwater MS4/PRP.

NEXT YEAR'S BUDGET

The Authority requests that its consulting engineers, each year as part of the annual budget, prepare a report indicating whether sewer rental charges and stormwater fee charges are sufficient to cover operating expenses and debt service requirements. In 2019, the sewer rates remained at \$153 per quarter due to the Authority electing to use surplus funds to offset the need for a 2019 rate increase, as recommended by the Engineer. The sewer rental rate is scheduled to remain at \$153/quarter in 2020 with the Authority able to again utilize surplus funds. The stormwater fee was initially set at \$32/quarter/ERU and is scheduled to remain at \$32/quarter/ERU in 2020.

LOWER PAXTON TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2019

FINAL COMMENTS

Fiscal year 2019 continued a trend of strong financial performance by the Authority. This current strength with projected economic recovery is needed to ensure that there is sufficient revenue for annual debt service payments required to fund improvements to the sewer system and stormwater conveyance system, as required by the DEP corrective action plans. In addition, financial strength will need to be maintained in order to allow for future borrowing, which will be needed to complete the remaining projects under the Paxton Creek and Beaver Creek Corrective Action Plans, DEP Stormwater MS4/PRP.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This report is designed to provide our citizens, customers and creditors with a general overview of the Authority's finances and to demonstrate the accountability of the Authority. If you have any questions about this report or need additional information, contact the Lower Paxton Township Authority Manager, 425 Prince Street, Harrisburg, PA 17109.

LOWER PAXTON TOWNSHIP AUTHORITY

STATEMENT OF NET POSITION - DECEMBER 31, 2019

ASSETS

Assets:

Current assets:

Cash and cash equivalents	\$ 21,920,435
Investments	985,009
Rentals and fees receivable:	
Billed	615,668
Unbilled	5,042,473
Other receivables	491,142
Prepaid expenses	38,135

Total current assets

29,092,862

Noncurrent assets:

Restricted for debt service and capital projects, cash and cash equivalents	11,786,103
Property, plant and equipment, net	132,376,416
Deferred capacity costs, net	13,981,904

Total noncurrent assets

158,144,423

Total assets

187,237,285

Deferred outflows of resources, charges on refundings

279,222

Total assets and deferred outflows of resources

\$ 187,516,507

See notes to financial statements.

LOWER PAXTON TOWNSHIP AUTHORITY

STATEMENT OF NET POSITION - DECEMBER 31, 2019

LIABILITIES AND NET POSITION

Liabilities:

Current liabilities:

Accounts payable	\$ 1,402,801
Current portion of long-term debt, subsidy agreements with Lower Paxton Township	3,341,201
Capital lease obligations, current portion	46,604
Developers escrow	237,186
Accrued interest	1,073,135
Due to other governments	1,337,598
Due to primary government	1,506,694

Total current liabilities

8,945,219

Noncurrent liabilities:

Long-term debt, subsidy agreements with Lower Paxton Township	113,554,251
Capital lease obligations, net of current portion	116,476
Bond premium	8,425,109

Total noncurrent liabilities

122,095,836

Total liabilities

131,041,055

Net position:

Net investment in capital assets	29,579,010
Restricted for debt service and capital projects	11,786,103
Unrestricted	15,110,339

Total net position

56,475,452

Total liabilities and net position

\$ 187,516,507

See notes to financial statements.

LOWER PAXTON TOWNSHIP AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2019

Operating revenues:	
Rentals and fees	\$ 19,182,835
Miscellaneous	13,107
	<hr/>
Total operating revenues	19,195,942
	<hr/>
Operating expenses:	
Treatment and transmission charges	5,782,788
Transportation	102,995
Sewer maintenance	107,192
Maintenance of pumping stations and garage	89,417
Equipment maintenance	147,395
Tools	1,152
Office supplies and postage	218,669
Legal and accounting	355,480
Engineering	164,230
Insurance	36,548
Employee expense	16,369
Trustee fees	3,900
Miscellaneous	90,095
Reimbursements to Lower Paxton Township	3,375,678
Private source repairs	95,479
Depreciation	3,966,567
	<hr/>
Total operating expenses	14,553,954
	<hr/>
Operating income	4,641,988
	<hr/>
Nonoperating revenues (expenses):	
Tapping fees	727,419
Interest:	
Income	1,100,869
Expense and amortization, net	(4,999,164)
Developer contributions	1,058,101
Township contributions	15,434,586
Gain on sale of assets	40,354
Bond issue costs	(524,388)
	<hr/>
Net nonoperating revenues (expenses)	12,837,777
	<hr/>
Change in net position	17,479,765
	<hr/>
Net position:	
Beginning (restated)	38,995,687
	<hr/>
Ending	\$ 56,475,452
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See notes to financial statements.

LOWER PAXTON TOWNSHIP AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

Cash flows from operating activities:

Cash received from customers and users	\$ 17,971,185
Cash payments to:	
Suppliers	(5,572,260)
Lower Paxton Township	(2,555,855)

Net cash provided by operating activities

9,843,070

Cash flows from capital and related financing activities:

Purchase of capital assets	(3,015,512)
Proceeds from sale of capital assets	55,820
Tapping fees	727,419
Proceeds from the issuance of long-term debt, subsidy agreements	53,300,509
Principal payments on long term debt, subsidy agreements	(45,246,840)
Capital lease paid	(77,073)
Bond issue costs	(524,388)
Interest expense	(5,418,137)

Net cash used in capital and related financing activities

(198,202)

Cash flows from investing activities:

Sale of investments	3,442,678
Interest income	1,100,869

Net cash provided by investing activities

4,543,547

Net increase in cash

14,188,415

Cash:

Beginning of year	<u>19,518,123</u>
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End of year

\$ 33,706,538

Presented in the financial statements as:

Cash and cash equivalents	\$ 21,920,435
Restricted cash and cash equivalents	11,786,103

Total cash and cash equivalents

\$ 33,706,538

(continued)

LOWER PAXTON TOWNSHIP AUTHORITY

STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

Reconciliation of operating income to net cash provided by operating activities, operating income	\$ 4,641,988
Adjustments to reconcile operating income to net cash provided by operating activities, depreciation expense	3,966,567
Noncash expense	78,717
(Increase) decrease in:	
Receivables	(1,422,929)
Due from other governments	83,250
Prepaid expenses	(1,636)
Increase in:	
Accounts payable and accrued expenses	174,420
Due to Lower Paxton Township	934,745
Due to other governments	1,337,598
Developers escrow	50,350
Net cash provided by operating activities	\$ 9,843,070
Supplemental disclosure of noncash transactions:	
Capital lease additions	\$ 158,536
Developer contributions	1,058,101
Township contributions	15,434,586
Amortization of:	
Bond premium	(229,822)
Deferred refundings	73,933

See notes to financial statements.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Nature of organization and significant accounting policies:

Nature of organization:

The Lower Paxton Township Authority (the Authority) was incorporated on June 11, 1951, under the Municipal Authorities Act of 1945, P.L. 382, as amended, pursuant to a resolution adopted by the supervisors of the Township of Lower Paxton (the Township). The Authority is an operating Authority responsible for acquiring, holding, constructing, improving, maintaining, operating, owning and leasing, either in the capacity of lessor or lessee, sewers, sewer systems or parts thereof. The Authority is considered a blended component unit of the Township due to the Township's ability to impose its will on the Authority.

Reporting entity:

The Authority has adopted the provisions of Governmental Accounting Standards Board (GASB) for the criteria used to evaluate organizations, activities and functions that should be included in the Authority's financial statements. The basic criteria are the exercise of oversight responsibility over such organizations, activities and functions.

The Authority has not identified any entities which should be subject to evaluation for inclusion in the Authority's reporting entity. The Township includes the Authority in its financial statements as a blended component unit because the Township appoints the Authority's governing board and guarantees the Authority debt and the Authority meets the criteria satisfying inclusion in the Township's financial statements.

Basis of accounting and presentation, fund accounting and measurement focus:

Basis of accounting and presentation:

The Authority's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. The Authority applies GASB pronouncements.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Nature of organization and significant accounting policies (continued):

Basis of accounting and presentation, fund accounting and measurement focus:

Fund accounting:

All activities of the Authority are accounted for within two proprietary (enterprise) funds. 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.

Measurement focus:

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into net investment in capital assets, restricted and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources, and then unrestricted resources as they are needed for their intended purposes.

Cash:

Cash, for the purposes of the statement of cash flows, includes unrestricted and restricted cash on hand or on deposit with a maturity of three months or less.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Nature of organization and significant accounting policies (continued):

Investments, external investment pools, certificates of deposit:

The Authority invests its funds in various instruments, including external investment pools and certificates of deposit with federally-insured financial institutions. The Authority's investment in external investment pools, as discussed in Note 2, are valued at amortized cost, which approximates fair value, and is classified as cash and cash equivalents on the balance sheet. The Authority invests in both negotiable and non-negotiable certificates of deposit (CD) in federally insured financial institutions. Negotiable CD's are valued at fair value while non-negotiable CD's are valued at cost because they are considered non-participating contracts for which redemption terms do not consider market values.

Restricted assets:

Restricted assets represent cash and investment balances from developers' escrow and unspent bond and loan proceeds. At December 31, 2019, the restricted cash and cash equivalents and restricted net assets balance was \$11,786,103.

Receivables:

Receivables are stated at the amount management expects to collect from outstanding balances. No allowance for doubtful accounts has been provided for the sewer rentals receivable since the Authority can place a lien on the property of customers who are significantly in arrears on sewer payments. Unbilled sewer rentals receivable relate to services performed at December 31 and not billed until the following January.

Capital assets and capacity costs:

Capital assets, which include property, plant and equipment and infrastructure are stated at cost, except for sewer extensions contributed to the Authority, which are recorded at fair value at the date of contribution. Depreciation is provided on the straight-line method over the estimated useful lives of the various assets.

The Authority participated in the construction of various facilities. This participation gave the Authority reserved rights to use a percentage of the facilities. Consequently, an asset is recorded based upon construction costs paid net of accumulated amortization of those costs, which is determined on the straight-line method over the estimated useful life of the capacity purchased.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlay of capital assets and improvements are capitalized as projects are completed.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Nature of organization and significant accounting policies (continued):

Capital assets and capacity costs:

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Sewer and stormwater systems and deferred capacity	15 to 60
Buildings	50
Furniture, machinery and equipment	5 to 20

Long-term obligations and debt related costs:

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight line method.

For current and advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The net amortization expense of both bond premiums and discounts and deferred debt refundings for the year ended December 31, 2019 amounted to \$144,672.

Developers escrow liability:

The Authority requires developers to deposit funds pursuant to an escrow agreement to provide assurance that projects will be completed according to approved specifications and on a timely basis. If work is not completed satisfactorily, the Authority uses the developer's escrow account to reimburse themselves for fees incurred in correcting the work done.

Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Nature of organization and significant accounting policies (continued):

Deferred outflows, inflows of resources:

In addition to assets, the statement of financial position could also report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charges on refundings reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position could also report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority did not have an item that qualified for reporting in this category.

Adoption of GASB statements:

GASB issued Statement No. 88, *Certain Disclosures related to Debt, Including Direct Borrowings and Direct Placements*. This Statement was issued to improve the information that is disclosed in the notes to the governmental financial statements related to debt, including direct borrowings and direct placements. The new pronouncement is included in the current year disclosures.

Pending GASB statements:

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. The provisions of GASB Statement No. 87 are effective for the Authority's December 31, 2022 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement is to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The provisions of GASB Statement No. 89 are effective for the Authority's December 31, 2021 financial statements

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. Nature of organization and significant accounting policies (continued):

Pending GASB statements:

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice. The provisions of GASB Statement No. 91 are effective for the Authority's December 31, 2022 financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of GASB Statement No. 92 are effective for the Authority's December 31, 2022 financial statements.

The effect of implementation of these statements has not yet been determined.

2. Deposits and investments:

Custodial credit risk:

For deposits and investments, 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 deposits or collateral securities that are in the possession of an outside party. As of December 31, 2019, the Authority's cash balance was \$33,706,538, and its bank balance was \$33,710,545. Of the bank balance, \$750,000 was covered by the Federal Deposit Insurance Corporation and \$21,522,722 subject to custodial credit risk as it was collateralized under Act 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined by the Act, to cover all public funds deposited in excess of federal depository insurance limits. The remaining balance was invested in an external investment pool as described in more detail below. None of the Authority's investments were exposed to custodial credit risk at December 31, 2019. The Authority does not have a formal investment policy related to custodial credit risk.

As of December 31, 2019, the Authority had cash equivalents totaling \$11,437,823, invested in the Pennsylvania Local Government Investment Trust (PLGIT). PLGIT issues separately audited financial statements that are available to the public. The fair value of the Authority's position in the external investment pool is equivalent to the value of the pool shares. PLGIT does not place any limitations or restrictions on withdrawals from the program. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pools. At December 31, 2019, PLGIT carries an AAAM rating and has an average maturity of less than one year.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

2. Deposits and investments (continued):

Custodial credit risk:

As of December 31, 2019, the Authority had \$985,009 of debt investments and maturities within its operating fund accounts. These investments consisted of certificates of deposit with maturity dates of less than one year.

Reconciliation to the financial statements:

Collateral held by the pledging bank under Act 72 but not in the Township's name	\$ 21,522,722
PLGIT investments, money market	11,437,823
Insured by Federal Deposit Insurance Corporation	750,000
Deposits in transit	6,003
Outstanding checks	(11,010)
Petty cash	1,000
	<hr/>
Total cash deposits	<u>\$ 33,706,538</u>
Reconciliation to financial statements, cash:	
Unrestricted	\$ 21,920,435
Restricted	11,786,103
	<hr/>
	<u>\$ 33,706,538</u>

Concentration of credit risk:

The Authority does not have a formal policy that places a limit on the amount or percent that may be invested in any one issuer. At December 31, 2019, the Authority did not have any investments subject to concentration of credit risk.

Fair value:

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs.

The Authority's investments in negotiable certificates of deposit are valued using quoted market prices (Level 1 inputs).

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

3. Capital assets:

	(Restated) Beginning balance	Additions	Retirements	Ending balance
Capital assets not being depreciated (cost):				
Land	\$ 1,540,192			\$ 1,540,192
Intangibles	2,740,869			2,740,869
Total capital assets not being depreciated	4,281,061			4,281,061
Capital assets being depreciated (cost):				
Buildings	1,116,145			1,116,145
Machinery and equipment	680,015	\$ 158,536	\$ (54,990)	783,561
Furniture	19,299			19,299
Sewer system	159,877,306	2,875,755		162,753,061
Stormwater system		16,632,444		16,632,444
Total capital assets being depreciated	161,692,765	19,666,735	(54,990)	181,304,510
Less accumulated depreciation for:				
Buildings	(450,194)	(27,904)		(478,098)
Machinery and equipment	(386,032)	(90,588)	39,524	(437,096)
Furniture	(19,299)			(19,299)
Sewer system	(48,807,662)	(2,903,239)		(51,710,901)
Stormwater system		(563,761)		(563,761)
Total accumulated depreciation	(49,663,187)	(3,585,492)	39,524	(53,209,155)
Total capital assets being depreciated, net	112,029,578	16,081,243	(15,466)	128,095,355
Total property, plant and equipment, net	116,310,639	16,081,243	(15,466)	132,376,416
Deferred capacity costs	21,144,628			21,144,628
Less accumulated depreciation	(6,781,648)	(381,076)		(7,162,724)
Total deferred capacity costs, net	14,362,980	(381,076)		13,981,904
Total capital assets, net	\$ 130,673,619	\$ 15,700,167	\$ (15,466)	\$ 146,358,320

On January 1, 2019, the Township transferred capital assets related to the stormwater system to the Authority. The net value of assets transferred was \$15,434,586.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

4. Long-term liabilities:

The Authority's long-term liabilities consists of subsidy agreement obligations with the Township for general obligation bonds and loans, premiums related to the subsidy agreements and capital leases.

Subsidy agreement obligations:

The subsidy agreements with the Township contain various covenants of the Authority. Included in the subsidy agreements are covenants to impose and collect sewer rentals, stormwater fees, rates, tapping fees and other charges in each year sufficient, together with available funds, to pay the administrative, operation and maintenance expenses of the Authority. Additionally, in accordance with the terms of the subsidy agreements, the Authority is bound to pay its share of debt service on the related debt.

Subsidy agreement obligations outstanding at December 31, 2019 are as follows:

	Original borrowing	Year of issue/maturity	Interest rates to maturity	Annual principal payments to maturity	Outstanding at December 31, 2019
Lower Paxton Township, general obligation bonds - subsidy agreements:					
Series of 2013	\$ 7,965,000	2013/2022	0.60% - 2.00%	\$1,365,000 to \$1,500,000	\$ 4,305,000
Series of 2014	23,350,000	2014/2044	1.75% - 5.00%	\$490,000 to \$1,450,000	21,510,000
Series of 2015	14,005,000	2015/2029	2.00% - 4.00%	\$5,000 to \$2,215,000	13,540,000
Series of 2016	23,840,000	2016/2046	2.00% - 5.00%	\$510,000 to \$1,355,000	22,370,000
Series of 2019	48,150,000	2019/2044	3.00% - 4.00%	\$505,000 to \$4,960,000	<u>48,150,000</u>
 Total Lower Paxton Township, general obligation bonds - subsidy agreements					 109,875,000
 Lower Paxton Township, PennVest loan payable - subsidy agreement - 2010	 10,901,017	 2010/2032	 2.45% - 3.13%	 \$336,662 to \$657,732	 <u>7,020,452</u>
 Total subsidy agreement obligations					 <u>\$ 116,895,452</u>

All proceeds from the subsidy agreements series of 2013 through series of 2016 bonds and the PennVest loan were to finance certain capital projects of the Authority, including the design, planning, acquisition and/or construction of sewer treatment facilities, collection and conveyance systems; to refinance existing subsidy agreements and to pay the issuance costs of the related debt obligations.

The subsidy agreement for the series of 2019 bond was issued to refund the subsidy agreement for the series of 2009D bond, pay all costs and fees associated with the bond issue and to fund various capital projects of the Authority related to stormwater collection and conveyance.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

4. Long-term liabilities (continued):

Subsidy agreement obligations:

In August 2019, a subsidy agreement with Lower Paxton Township was signed providing the Authority with \$13,354,113 of available PennVest loan funding for sewer remediation projects. As of December 31, 2019, no funds have been drawn on this loan.

Changes in subsidy agreement obligations for the year ended December 31, 2019 are as follows:

	<u>Balance at</u> <u>January 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>December 31, 2019</u>
Lower Paxton Township, General obligation bonds - subsidy agreements:				
Series of 2009D	\$ 42,465,000		\$ (42,465,000)	\$ -
Series of 2013	5,600,000		(1,295,000)	4,305,000
Series of 2014	21,985,000		(475,000)	21,510,000
Series of 2015	13,600,000		(60,000)	13,540,000
Series of 2016	22,870,000		(500,000)	22,370,000
Series of 2019		<u>\$ 48,150,000</u>		<u>48,150,000</u>
 Total Lower Paxton Township, General obligation bonds - subsidy agreements:	 106,520,000	 48,150,000	 (44,795,000)	 109,875,000
 Lower Paxton Township, PennVest loan payable - subsidy agreement	 <u>7,472,292</u>		 <u>(451,840)</u>	 <u>7,020,452</u>
	113,992,292	<u>\$ 48,150,000</u>	<u>\$ (45,246,840)</u>	116,895,452
 Current maturities	 <u>(2,781,840)</u>			 <u>(3,341,201)</u>
 Total subsidy agreements, net of current maturities	 <u>\$ 111,210,452</u>			 <u>\$ 113,554,251</u>

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

4. Long-term liabilities (continued):

Subsidy agreement obligations:

The annual requirements for the Authority's long term debt are as follows:

	Principal	Interest	Total
2020	\$ 3,341,201	\$ 4,469,800	\$ 7,811,001
2021	3,441,019	4,421,955	7,862,974
2022	3,716,307	4,317,098	8,033,405
2023	3,847,082	4,189,805	8,036,887
2024	3,998,358	4,037,429	8,035,787
2025-2029	22,144,620	18,047,711	40,192,331
2030-2034	26,536,865	13,647,814	40,184,679
2035-2039	32,485,000	7,702,022	40,187,022
2040-2044	14,745,000	2,506,975	17,251,975
2045-2046	2,640,000	133,750	2,773,750
Total	\$ 116,895,452	\$ 63,474,359	\$ 180,369,811

Capital lease obligations:

The Authority utilizes capital leases to finance the purchase of certain equipment. The leases have terms of five years with payments that began in October 2018 and continue through October 2023.

The assets (recorded as machinery and equipment) acquired through capital leases are as follows:

Assets:		
Leasehold assets		\$ 240,153
Less accumulated depreciation		(31,719)
Total		\$ 208,434

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

4. Long-term liabilities (continued):

Future minimum lease payments for capital leases as of December 31, 2019 are as follows:

<u>Year ending December 31:</u>	
2020	\$ 52,478
2021	52,478
2022	52,477
2023	<u>18,587</u>
Total minimum lease payments	176,020
Less:	
Amount representing interest	12,940
Present value of minimum lease payments, current portion	<u>46,604</u>
Present value of minimum lease payments, long-term portion	<u><u>\$ 116,476</u></u>

5. Commitments and contingencies:

In the normal course of business, there are various claims and suits pending against the Authority and its elected officials. Management is of the opinion that these matters will not have a material adverse effect on the Authority's financial position at December 31, 2019.

The Authority has entered into agreements for repairs and rehabilitation of its sewer and stormwater systems. There were nine total construction contracts open as of December 31, 2019 which totaled \$18,369,390. Work totaling \$852,913 had been completed on these contracts as of year end.

6. Legal agreements and restrictions regarding Authority operations:

In June 1995, the Pennsylvania Department of Environmental Protection (PADEP) entered into a Consent Decree and Settlement Agreement with the Authority, Lower Paxton Township and Swatara Township Authority, outlining certain steps that need to be met to abate the overload of the Beaver Creek Basin interceptor.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

6. Legal agreements and restrictions regarding Authority operations (continued):

On May 29, 2002, the parties, including the Developers as Intervenors, entered into a Second Consent Decree and new Settlement Agreement to supersede the first Consent Decree and Settlement Agreement of June 1995, the 1991 Spring Creek Consent Decree and to settle two Environmental Hearing Board appeals and a Commonwealth Court Petition. The Commonwealth Court approved the Second Consent Decree on June 13, 2002.

The Second Consent Decree incorporated the Township's Act 537 Plan and corrective action plans to eliminate the overflows and hydraulic overloads in the Beaver Creek, Paxton Creek and a portion of the Spring Creek Basin. The Township submitted, and PADEP approved, the First Amendment to the Second Consent Decree to address Paxton Creek beyond 2007. The First Amendment for Paxton Creek requires a 15-year mini-basin total sewer replacement/repair program through 2022 and provided for the replacement/enlargement of several interceptor sewers. In 2022, the Authority is required to evaluate the progress and success of the work to determine if any storage facilities will be needed to ensure future capacity. If they are required, it is anticipated that such facilities will be completed within three years of PADEP planning approval.

The PADEP approved the Second Amendment to the Second Consent Decree and Settlement Agreement on August 21, 2013 to eliminate the Wet Weather Treatment Facility in the Beaver Creek Basin as the chosen alternative and selecting a 15-year mini-basin total sewer replacement/repair program similar to Paxton Creek. The Beaver Creek new alternative requires sewer replacements through 2027. In 2027, the Authority is required to evaluate the progress and success of the work to determine if any storage facilities will be needed to ensure future capacity. If they are required, it is anticipated that such facilities will be completed within three years of PADEP planning approval. The Commonwealth Court approved the Second Amendment to the Second Consent Decree on September 18, 2013.

The Second Amendment to the Second Consent Decree and Settlement Agreement imposes a limitation on planning modules in the Beaver Creek Basin each year with a maximum of 200 equivalent dwelling units per year and a limitation of 168 connections each year, provided that the Authority is in compliance with the plan and schedule and shows a reduction in flows to the sewer system. The Settlement Agreement provides for the accumulation of unused planning module EDU's and connection permits. At the end of 2019, the total accumulated EDU's and connections permits is 923 EDU's and 390 connections, respectively. Paxton Creek is allocated 93 connections annually, and there are no restrictions on planning modules. The Authority is permitted to receive an increase of ten connections per year for each completed mini-basin project. In 2019, the Authority requested an additional 150 connections for completing 15 projects over the past ten years. On March 21, 2019, the Authority received approval of the additional 150 connections. The Spring Creek Basin is provided two connections annually, and there are no planning module restrictions.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

6. Legal agreements and restrictions regarding Authority operations (continued):

The original cost estimate in 2002, as part of the original Consent Decree entered into in 2002, was \$80 Million in Beaver Creek, \$75 Million in Paxton Creek and \$25 Million in Spring Creek for a total of \$180 Million. In September 2016, the Authority Engineer presented an update to the program costs that have escalated to an estimated \$350 Million. The escalation in costs is associated with the increase in paving costs to re-build the Township streets following the total sewer replacements, new ADA ramps and inspection and program management costs that were not originally anticipated. The engineer presented a new alternative for an Extra Storage option in the Paxton Creek and Beaver Creek Basins, which would reduce the total cost to \$258 Million. The Board approved the Extra Storage option and authorized the submission to the PADEP for approval. On behalf of the Authority, GHD Engineering submitted the Phase 2 Long-Term Solution and Schedule for the Beaver Creek Basin to implement the Extra Storage option on June 29, 2017. The Authority received approval from the PADEP by letter dated August 23, 2017. The Paxton Creek Basin Extra Storage option was submitted to the PADEP as part of the proposed 3rd Paxton Creek corrective action plan by letter dated March 5, 2018. The Authority received approval from the PADEP by letter dated March 20, 2018.

A total of \$114 Million has been spent to date on the sewer replacement programs in the Beaver, Paxton and the Spring Creek 1 drainage basins. To complete the approved CAP's in the Beaver and Paxton Creek Basins, and the Spring Creek 2 Basin, the Consulting Engineer estimates that an additional \$107 Million is required to be financed, \$34 Million in Paxton Creek, \$62 Million in Beaver Creek and \$11 million in the Spring Creek 2 Basin. This plan anticipates delaying storage in Paxton Creek until 2040 and an additional financing at that time to complete this project, which is not part of the \$107 Million estimate.

The Authority has also begun implementation of the Stormwater Management Program required under the Township's PADEP MS4 Permit. The PADEP issues the MS4 Permit to the Township as the regulatory authority under the Stormwater Management Act and the Pennsylvania Municipal Planning Code, as amended by Act 170 and Act 131. The PADEP MS4 Permit requires the Township to implement a Pollution Reduction Plan (PRP) to reduce sediment in the Chesapeake Bay and to comply with the TMDL for Paxton Creek. The Township entered into an Intergovernmental Cooperation Agreement (ICM) in 2019 with CRW and Susquehanna Township to develop and implement a Joint PRP. The Joint PRP was submitted to the PADEP in December 2019 for approval. The Authority reimburses the Township under the Management Agreement for all expenses incurred under the Stormwater Management Program. The Authority adopted a Capital Budget in 2019 which includes a five-year spending plan to comply with the MS4 permit/PRP plan with the PADEP. This five-year capital plan is estimated at \$16 Million, which includes an estimated cost of \$6 Million (Township Share) for the Joint PRP and \$10 Million for stormwater system pipe replacements over a five-year period.

7. Agreements:

The Authority has entered into agreements with downstream municipalities for the transmission and treatment of sewage. Charges for transmission and treatment are principally based upon a combination of the number of equivalent dwelling units and sewage transmitted.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

7. Agreements (continued):

The Authority has entered into the Swatara Township Authority-Intermunicipal Agreement with the joint users of the Swatara Township Authority treatment plant. The Agreement covers the operating expenses of the Swatara Township Authority treatment plant and transmission facilities and the corresponding responsibilities of each user based on a pro rata share basis. Under this agreement, Lower Paxton Township Authority's operating costs amounted to \$1,203,601 for the year ended December 31, 2019.

The Authority, along with the Borough of Penbrook, the Borough of Paxtang, the Township of Swatara, the Township of Susquehanna, and the Township of Lower Paxton (the Joint Municipalities) continue to negotiate with the City of Harrisburg and CRW to finalize a new Intermunicipal Agreement, which sets the rate for treatment and transmission services provided to the Joint Municipalities, as well as the funding of the improvement projects for the CRW facilities. Under the current agreement, the Authority's operating costs amounted to \$4,579,187.

The Authority is currently disputing the method of calculating certain 2015 through 2019 charges related to the services provided above. The disputed amount of \$1,337,598 is included as a liability, due to other governments, and in the operating costs noted above to CRW on the Authority's books as of December 31, 2019.

8. Management agreement with the Township:

The Authority has entered into an agreement with Lower Paxton Township to procure certain management services with regard to its operations, activities and functions. The Authority and the Township have certain common management. The total management services for 2019 amounted to \$296,458. Additionally, due to the Township providing all employees to the Authority, the Authority reimbursed the Township for wages, payroll taxes and various insurances in the amount of \$3,079,220 for the year ended December 31, 2019. At December 31, 2019, the Authority owed the Township \$674,132 for the fourth quarter of calendar year 2019.

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

9. Operating lease:

The Authority has committed, under an operating lease, for certain vehicles. Future minimum operating lease commitments as of December 31, 2019 are as follows:

2020	\$ 106,369
2021	106,369
2022	95,643
2023	72,929
2024	<u>35,871</u>
Total	<u>\$ 417,181</u>

The Authority recognized lease expense of \$71,324 for the year ended December 31, 2019.

10. Prior period adjustment:

In the December 31, 2018 financial statements, an amount of \$1,506,577 was recorded for a loss on a cash settling swap (SWAP) derivative instrument. This amount should not have been recorded on the Authority's financial statements as the SWAP agreement is with Lower Paxton Township and not the Authority. Additionally, developer contributions of sewer lines had not been recorded by the Authority from 2013 through 2018. The Authority's net position has been restated to correct the aforementioned errors.

The following schedule summarizes the restatement changes and the impact to net position as of January 1, 2019:

Beginning net position, originally stated	\$ 34,942,272
Removal of SWAP loss and related liability recorded at December 31, 2018	1,506,577
Addition of developer contributions, net of accumulated depreciation, not recorded in prior years 2013 through 2018	<u>2,546,838</u>
Beginning net position, restated	<u>\$ 38,995,687</u>

LOWER PAXTON TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

11. Subsequent events:

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has the potential to cause business disruption to the Authority beginning in March 2020, due to state government-imposed shutdowns of businesses and other results of the illness. While the Authority expects this matter may negatively impact its results, the extent of the impact of the COVID-19 on the Authority's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for the Authority's services, all of which are highly uncertain and cannot be predicted.

The Authority has evaluated subsequent events through August 20, 2020, the date which the financial statements were available to be issued.

LOWER PAXTON TOWNSHIP AUTHORITY

COMBINING STATEMENT OF NET POSITION
 YEAR ENDED DECEMBER 31, 2019
 (See independent auditor's report)

	ASSETS			
	Sewer fund	Stormwater fund	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 18,948,009	\$ 2,972,426		\$ 21,920,435
Investments	985,009			985,009
Rentals and fees receivable:				
Billed	530,809	84,859		615,668
Unbilled	4,068,267	974,206		5,042,473
Other receivables	488,000	3,142		491,142
Due from stormwater fund	1,406,428		\$(1,406,428)	-
Prepaid expenses	35,879	2,256		38,135
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	26,462,401	4,036,889	(1,406,428)	29,092,862
	<hr/>	<hr/>	<hr/>	<hr/>
Noncurrent assets:				
Restricted for debt service and capital projects, cash and cash equivalents	2,656,424	9,129,679		11,786,103
Property, plant and equipment, net	116,307,733	16,068,683		132,376,416
Deferred capacity costs, net	13,981,904			13,981,904
	<hr/>	<hr/>		<hr/>
Total noncurrent assets	132,946,061	25,198,362		158,144,423
	<hr/>	<hr/>		<hr/>
Total assets	159,408,462	29,235,251	(1,406,428)	187,237,285
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred outflows of resources, charges on refundings	279,222			279,222
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 159,687,684	\$ 29,235,251	\$(1,406,428)	\$ 187,516,507
	<hr/>	<hr/>	<hr/>	<hr/>

See notes to financial statements.

LOWER PAXTON TOWNSHIP AUTHORITY

COMBINING STATEMENT OF NET POSITION
YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

LIABILITIES AND NET POSITION

	Sewer fund	Stormwater fund	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities:				
Current liabilities:				
Accounts payable	\$ 1,324,014	\$ 78,787		\$ 1,402,801
Current portion of long-term debt, subsidy agreements with Lower Paxton Township	3,111,201	230,000		3,341,201
Capital lease obligations, current portion	46,604			46,604
Developers escrow	237,186			237,186
Accrued interest	987,960	85,175		1,073,135
Due to sewer fund		1,406,428	\$(1,406,428)	-
Due to other governments	1,337,598			1,337,598
Due to primary government	674,132	832,562		1,506,694
	<u>7,718,695</u>	<u>2,632,952</u>	<u>(1,406,428)</u>	<u>8,945,219</u>
Total current liabilities				
Noncurrent liabilities:				
Long-term debt, subsidy agreements with Lower Paxton Township	104,639,251	8,915,000		113,554,251
Capital lease obligations, net of current portion	116,476			116,476
Bond premium	7,337,081	1,088,028		8,425,109
	<u>112,092,808</u>	<u>10,003,028</u>		<u>122,095,836</u>
Total noncurrent liabilities				
Total liabilities	<u>119,811,503</u>	<u>12,635,980</u>	<u>(1,406,428)</u>	<u>131,041,055</u>
Net position:				
Net investment in capital assets	22,655,327	6,923,683		29,579,010
Restricted for debt service and capital projects	2,656,424	9,129,679		11,786,103
Unrestricted	14,564,430	545,909		15,110,339
	<u>39,876,181</u>	<u>16,599,271</u>		<u>56,475,452</u>
Total net position				
Total liabilities and net position	<u>\$ 159,687,684</u>	<u>\$ 29,235,251</u>	<u>\$(1,406,428)</u>	<u>\$ 187,516,507</u>

See notes to financial statements.

LOWER PAXTON TOWNSHIP AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	Sewer fund	Stormwater fund	Eliminations	Total
Operating revenues:				
Rentals and fees	\$ 16,165,144	\$ 3,017,691		\$ 19,182,835
Miscellaneous	128,029		\$ (114,922)	13,107
Total operating revenues	16,293,173	3,017,691	(114,922)	19,195,942
Operating expenses:				
Treatment and transmission charges	5,782,788			5,782,788
Transportation	99,363	3,632		102,995
Sewer maintenance	107,192			107,192
Maintenance of pumping stations and garage	89,417			89,417
Equipment maintenance	28,842	118,553		147,395
Tools	1,152			1,152
Office supplies and postage	170,079	48,590		218,669
Legal and accounting	305,026	50,454		355,480
Engineering	148,799	15,431		164,230
Insurance	34,658	1,890		36,548
Employee expense	16,369			16,369
Trustee fees	3,900			3,900
Miscellaneous	20,397	69,698		90,095
Reimbursements	2,543,116	947,484	(114,922)	3,375,678
Private source repairs	95,479			95,479
Depreciation	3,402,806	563,761		3,966,567
Total operating expenses	12,849,383	1,819,493	(114,922)	14,553,954
Operating income	3,443,790	1,198,198	-	4,641,988
Nonoperating revenues (expenses):				
Tapping fees	727,419			727,419
Interest:				
Income	1,060,424	40,445		1,100,869
Expense and amortization, net	(4,925,206)	(73,958)		(4,999,164)
Developer contributions	1,058,101			1,058,101
Township contributions		15,434,586		15,434,586
Gain on sale of assets	40,354			40,354
Bond issue costs	(524,388)			(524,388)
Net nonoperating revenues (expenses)	(2,563,296)	15,401,073		12,837,777
Change in net position	880,494	16,599,271	-	17,479,765
Net position:				
Beginning (restated)	38,995,687			38,995,687
Ending	\$ 39,876,181	\$ 16,599,271	\$ -	\$ 56,475,452

See notes to financial statements.

LOWER PAXTON TOWNSHIP AUTHORITY

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	Sewer fund	Stormwater fund	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers and users	\$ 14,609,273	\$ 1,955,484	\$ 1,406,428	\$ 17,971,185
Cash payments to (from), net:				
Suppliers	(5,340,543)	1,174,711	(1,406,428)	(5,572,260)
Lower Paxton Township	(2,440,933)	(114,922)		(2,555,855)
Net cash provided by operating activities	6,827,797	3,015,273	-	9,843,070
Cash flows from capital and related financing activities:				
Purchase of capital assets	(1,817,654)	(1,197,858)		(3,015,512)
Proceeds from sale of capital assets	55,820			55,820
Tapping fees	727,419			727,419
Proceeds from the issuance of long-term debt, subsidy agreements	43,056,264	10,244,245		53,300,509
Principal payments on long term debt, subsidy agreements:	(45,246,840)			(45,246,840)
Capital lease paid	(77,073)			(77,073)
Bond issue costs	(524,388)			(524,388)
Interest expense	(5,418,137)			(5,418,137)
Net cash provided by (used in) capital and related financing activities	(9,244,589)	9,046,387		(198,202)
Cash flows from investing activities:				
Sale of investments	3,442,678			3,442,678
Interest income	1,060,424	40,445		1,100,869
Net cash provided by investing activities	4,503,102	40,445		4,543,547
Net increase in cash	2,086,310	12,102,105	-	14,188,415
Cash:				
Beginning of year	19,518,123			19,518,123
End of year	\$ 21,604,433	\$ 12,102,105	\$ -	\$ 33,706,538
Presented in the financial statements as:				
Cash and cash equivalents	\$ 18,948,009	\$ 2,972,426		\$ 21,920,435
Restricted cash and cash equivalents	2,656,424	9,129,679		11,786,103
Total cash and cash equivalents	\$ 21,604,433	\$ 12,102,105		\$ 33,706,538

(continued)

LOWER PAXTON TOWNSHIP AUTHORITY

COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2019
 (See independent auditor's report)

	Sewer fund	Stormwater fund	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Reconciliation of operating income to net cash provided by operating activities, operating income	\$ 3,443,790	\$ 1,198,198		\$ 4,641,988
Adjustments to reconcile operating income to net cash provided by operating activities, depreciation expense	3,402,806	563,761		3,966,567
Noncash expenses	78,717			78,717
(Increase) decrease in:				
Receivables	(360,722)	(1,062,207)		(1,422,929)
Due from stormwater fund	(1,406,428)		\$ 1,406,428	-
Due from other governments	83,250			83,250
Prepaid expenses	620	(2,256)		(1,636)
Increase (decrease) in:				
Accounts payable and accrued expenses	95,633	78,787		174,420
Due to Lower Paxton Township, sewer fund		1,406,428	(1,406,428)	-
Due to Lower Paxton Township	102,183	832,562		934,745
Due to other governments	1,337,598			1,337,598
Developers escrow	50,350			50,350
Net cash provided by operating activities	<u>\$ 6,827,797</u>	<u>\$ 3,015,273</u>	<u>\$ -</u>	<u>\$ 9,843,070</u>
Supplemental disclosure of noncash transactions:				
Capital lease additions	\$ 158,536			\$ 158,536
Developer contributions	1,058,101			1,058,101
Township contributions		\$ 15,434,586		15,434,586
Amortization of:				
Bond premium	(218,605)	(11,217)		(229,822)

See notes to financial statements.