

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2019  
AND  
INDEPENDENT AUDITOR'S REPORT

**HAMILTON & MUSSER, P.C.**  
*Certified Public Accountants*

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
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For the Year Ended December 31, 2019

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# HAMILTON & MUSSER, PC

*Certified Public Accountants • Consultants to Management*

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the Authority Board  
City of York Sewer Authority  
York, Pennsylvania

### Opinion

We have audited the accompanying financial statements of the City of York Sewer Authority (the Authority), a component unit of the City of York, York County, Pennsylvania, as of and for the year ended December 31, 2019, and the related notes to the 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 financial position of the Authority as of December 31, 2019, and the changes in its financial position and cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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 Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Emphasis of Matters

#### *Substantial Doubt about the Authority's Ability to Continue as a Going Concern*

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 10 to the financial statements, the Authority has entered into an agreement to sell the sewer system to an outside entity. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

#### *Component Unit*

As discussed in Note 1, the financial statements present only the City of York Sewer Authority and do not purport to, and do not present fairly the financial position of the City of York, York County, Pennsylvania as of December 31, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Emphasis of Matters (Continued)**

### *Prior Period Adjustment*

As discussed in Note 8 to the financial statements, certain errors resulting in understatement of amounts previously not reported for accounts receivable as of December 31, 2018, were discovered by management of the Authority during the current year. Accordingly, an adjustment has been made to net position and amounts reported for accounts receivable and related income as of December 31, 2019, to correct the error. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

February 26, 2024

Mechanicsburg, Pennsylvania



*Certified Public Accountants*

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Statement of Net Position  
December 31, 2019

Assets	
Cash and Cash Equivalents (Note 2)	\$ 17,477
Cash and Cash Equivalents – Restricted (Note 2)	8,359,971
Net Investment in Direct Financing Lease (Note 4)	30,889,309
Due from Other Governments	<u>19,878</u>
Total Assets	<u>39,286,635</u>
Liabilities	
Accounts Payable	450,876
Funds Held on Behalf of the City of York	6,095,198
Amounts Due to Other Governments	315,557
Bonds Payable	
Due Within One Year (Note 3)	3,935,919
Due in More Than One Year (Note 3)	<u>26,953,390</u>
Total Liabilities	<u>37,750,940</u>
Net Position	
Restricted for:	
Debt Service	16,778
Construction	1,525,237
Unrestricted (Note 6)	<u>(6,320)</u>
Total Net Position	<u>\$ 1,535,695</u>

The Accompanying Notes are an Integral Part of the Financial Statements

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Statement of Revenue, Expenses and Changes in Net Position  
For the Year Ended December 31, 2019

Operating Revenue	
Lease Investment Income	\$ 1,502,727
Total Operating Revenue	<u>1,502,727</u>
Operating Expenses	
Contractual Services	95,221
Administrative and General	7,295
Miscellaneous	<u>37,270</u>
Total Operating Expenses	<u>139,786</u>
Operating Income	<u>1,362,941</u>
Non-Operating Revenue (Expense)	
Interest Revenue	183,711
Interest Expense	(1,424,735)
Contributions	1,979,021
Rental Income	192,973
Transfers to the City of York	<u>(4,705,827)</u>
Total Non-Operating Revenue (Expense)	<u>(3,774,857)</u>
Change in Net Position	(2,411,916)
Net Position, January 1, As Adjusted (Note 8)	<u>3,947,611</u>
Net Position, December 31	<u><u>\$ 1,535,695</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Statement of Cash Flows  
For the Year Ended December 31, 2019

Cash Flows from Operating Activities:	
Cash Payments for Administrative Expenses	\$ (132,875)
Net Cash and Cash Equivalents Used by Operating Activities	<u>(132,875)</u>
Cash Flows from Investing Activities:	
Receipts from Rent	192,973
Interest Received	<u>183,711</u>
Net Cash and Cash Equivalents Provided by Investing Activities	<u>376,684</u>
Cash Flows from Capital and Related Financing Activities:	
Payments Received on Investment in Direct Financing Lease	5,303,575
Receipt from Other Governments to Fund Future Construction	114,770
Capital Assets Purchased and Transferred to the City	(4,300,172)
Proceeds from Debt Issuance	58,696
Principal Paid on Bonds Payable	(3,819,368)
Interest Paid on Long-Term Debt	<u>(1,424,735)</u>
Net Cash and Cash Equivalents Used by Capital and Related Financing Activities	<u>(4,067,234)</u>
Net Decrease in Cash and Cash Equivalents	(3,823,425)
Cash and Cash Equivalents, January 1	<u>12,200,873</u>
Cash and Cash Equivalents, December 31	<u>\$ 8,377,448</u>
Reconciliation of Operating Income to	
Net Cash and Cash Equivalents Used by Operating Activities	
Operating Income	\$ 1,362,941
Adjustments to Reconcile Operating Income to	
Net Cash and Cash Equivalents Used by Operating Activities:	
Lease Investment Income	(1,502,727)
Increase (Decrease) in:	
Accounts Payable	<u>6,911</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u>\$ (132,875)</u>
<u>Supplemental Schedules of Noncash Capital and Related Financing Activities:</u>	
Amounts Recorded as Accruals for Capital Assets	\$ 405,655
Amounts Recorded as Accruals for Investment in Direct Financing Lease	40,176
Amounts Recorded as Accruals for Other Governments to Fund Future Construction	(1,864,251)

The Accompanying Notes are an Integral Part of the Financial Statements

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Notes to Financial Statements  
For the Year Ended December 31, 2019

**NOTE 1            NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

The City of York Sewer Authority (Authority) was incorporated November 27, 1950, under the provisions of the Municipality Authorities Act of 1945, as amended (Act), for all the purposes authorized by the Act and shall have and exercise all powers granted to such Authorities under the Act. The Authority adopted Articles of Amendment on January 19, 1977, which extended the existence of the Authority for a period of 50 years. Through December 31, 2019, its operations have been primarily to acquire, construct, improve, and lease sewer systems and sewage treatment works.

**Reporting Entity:**

The Authority is a component unit of the City of York (City) reporting entity. Criteria considered in making this determination include appointment of the Authority's board, financial interdependence, and the Authority's potential to provide specific financial benefits to, or impose specific financial burdens on, the City.

Consistent with the guidance contained in Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment to GASB 14 and GASB 38, the criteria used by the Authority to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Authority reviews the applicability of the following criteria.

The Authority is financially accountable for:

1. Organizations that make up its legal entity.
2. Legally separate organizations if the Authority members appoint a voting majority of the organization's governing body and the Authority is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on the Authority, as defined below.
  - a. Impose its Will – If the Authority can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
  - b. Financial Benefit or Burden – Exists if the Authority (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.
3. Organizations that are fiscally dependent on the Authority. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the Authority.

There are no component units that meet all of the above criteria for inclusion in this reporting entity.

**Basic Financial Statements:**

Basic financial statements are presented at the fund financial level as business-type. The statements consist of the Statement of Net Position, the Statement of Revenue, Expenses and Changes in Net Position, and the Statement of Cash Flows. Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. The Authority reports a proprietary type fund.



**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Notes to Financial Statements  
For the Year Ended December 31, 2019

**NOTE 1      NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting:**

The Authority presents its financial statements using the accrual basis of accounting to account for operations that are financed and operated in a manner similar to private business enterprises. These enterprises are characterized by the intent that the costs of providing services to the general public on a continuing basis be financed or recovered substantially through user charges. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

**Classification of Revenues and Expenses:**

The Authority considers operating revenues and expenses in the Statement of Revenue, Expenses, and Changes in Net Position to be those revenues and expenses that result from exchange transactions or other activities that are connected directly to the Authority's primary financing functions. Certain other transactions are reported as non-operating revenues and expenses which include interest income on cash and cash equivalent balances, contributions, rental income, transfers out and interest expense.

**Deferred Outflows and Inflows of Resources:**

*Deferred Outflows of Resources* – a consumption of net assets by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets.

*Deferred Inflows of Resources* – an acquisition of net assets by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

**Cash Equivalents:**

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments with a maturity of three months or less from the date of acquisition, including restricted assets, to be cash equivalents.

**Investments:**

Investments are recorded at fair value for all mutual funds and equity securities held by the Authority. All cash and money market funds are recorded at cost, which approximates fair value.

GASB 72 requires an establishment of a hierarchy that ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices in active markets for identical assets and liabilities
- Level 2 – Directly or indirectly observable inputs other than Level 1 quoted prices
- Level 3 – Unobservable inputs not corroborated by market data

For investments with quoted market prices in active markets, the Authority uses the quoted market prices as fair values and includes those investments in Level 1 of the fair value hierarchy. When quoted market prices in active markets are not available, various pricing services are used to determine fair value of investments that are included in Level 2 of the fair value hierarchy. Level 3 represents financial assets whose fair value is determined based upon inputs that are unobservable and include the Authority's own determinations of the assumptions that a market participant would use in pricing the asset.

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible changes in risks in the near term would materially affect investment assets reported.

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Notes to Financial Statements  
For the Year Ended December 31, 2019

**NOTE 1      NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Restricted Assets:**

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because their use is limited by applicable trust indentures or other agreements.

**Funds Held on Behalf of the City:**

In accordance with the Lease, as referred to in Note 4, the City shall receive credits against minimum annual rentals for (1) net income of the Authority from its real property rentals, not part of the Sewer System, (2) excess funds from the debt service reserve funds, and (3) income from debt service funds, clearing funds, and sinking funds. The balance of unapplied credits as well as the balance of the debt service reserve fund comprise the liability due to the City as of December 31, 2019.

**Due to Other Governments:**

In accordance with the Escrow and Payment Agreement between the City, the Authority and Manchester Township (Township), the entities will split the cost of the Township Interceptor Project. For the majority of the expenses, the Township and the City are responsible for 97.9% and 2.1% of the costs, respectively. However, certain agreed upon expenses will be paid entirely by one entity. As of December 31, 2019, the Township and City have paid the respective portions of the expected costs to the Authority and the remaining unspent proceeds of \$279,208 is shown as due to other governments in the Statement of Net Position.

In accordance with the Agreement between the Township, North York Borough, Spring Garden Township, West Manchester Township, West York Borough, York Township and the Authority, the entities will split the cost of the Codorus Creek Interceptor Cleaning Project with each municipality being responsible for between 1.19%-24.28% of the costs. As of December 31, 2019, the Township, West Manchester Township, York Township, North York Borough and Spring Garden Township have paid their respective portions of the expected costs to the Authority and the remaining unspent proceeds of \$16,471 is shown as due to other governments in the Statement of Net Position.

**Adoption of Governmental Accounting Standards Board (GASB) Pronouncements:**

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The Authority adopted Statement No. 95 for its December 15, 2019 financial statements.

In January 2017, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. The Statement establishes the term annual comprehensive financial report and its acronym ACFR. The Authority adopted Statement No. 98 for its December 15, 2019 financial statements.

**Pending Governmental Accounting Standards Board (GASB) Pronouncements:**

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. As a result, the Authority was required to adopt Statement No. 83 for 2020.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for periods beginning after December 15, 2020.

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Notes to Financial Statements  
For the Year Ended December 31, 2019

**NOTE 1                      NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pending Governmental Accounting Standards Board (GASB) Pronouncements (Continued):**

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. Statement No. 87 is effective for periods beginning after December 15, 2022.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. As a result, the Authority was required to adopt Statement No. 83 for 2020.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Statement No. 89 is effective for periods beginning after December 15, 2020.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for periods beginning after December 15, 2020.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Statement No. 91 is effective for periods beginning after December 15, 2022.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The Statement's objectives are 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. Statement No. 92 is effective for its 2022 financial statements.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The Statement's objective is to address those and other accounting and financial reporting implications that result from the replacement of a LIBOR. Statement No. 93 is effective for its 2021 financial statements.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The Statement's objective is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. The Authority will be required to adopt Statement No. 94 for its fiscal year 2023 financial statements.

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Notes to Financial Statements  
For the Year Ended December 31, 2019

**NOTE 1                      NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pending Governmental Accounting Standards Board (GASB) Pronouncements (Continued):**

In March 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology*. The Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The Authority will be required to adopt Statement No. 96 for its fiscal year 2023 financial statements.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of the statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Authority will be required to adopt Statement No. 96 for its fiscal year 2020 financial statements.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The Statement's objectives are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The Authority will be required to adopt Statement No. 99 for its fiscal year 2023 and 2024 financial statements.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. The Statement's objective is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The Authority will be required to adopt Statement No. 100 for its fiscal year 2024 financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The Statement's objective is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The Authority will be required to adopt Statement No. 101 for its fiscal year 2024 financial statements.

**Fund Balance Classifications:**

A description of the fund balance classifications used by the Authority is as follows:

In the government-wide financial statements, net position is classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Notes to Financial Statements  
For the Year Ended December 31, 2019

**NOTE 1                    NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance Classifications (Continued):**

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the Authority, which is not restricted for any project or other purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the Authority's policy is to spend resources in the following order:

1. Restricted
2. Unrestricted

**Transfers to City of York:**

Transfers to the City of York represent capital expenditures incurred by the Authority for the year to improve the City-owned sewer infrastructure.

**Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Risk Management:**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverage in fiscal year 2019. Settlement amounts have not exceeded insurance coverage for the current and prior two years.

**Stewardship, Compliance, and Accountability:**

The Authority had no material violations of finance-related legal and contractual obligations.

**NOTE 2                    DEPOSITS AND INVESTMENTS**

Investing is performed in accordance with investment policies complying with state statutes and the Authority charter. The Pennsylvania Municipality Authorities Act requires that Authority deposits be federally insured. Deposits above the insured maximum are required to have collateral pledged in the name of the financial institution.

The Pennsylvania Municipality Authorities Act authorizes the following types of investments:

- United States treasury bills
- Obligations of the United States government and federal agencies
- Insured savings and checking accounts and certificates of deposits in banks, savings and loan associations and credit unions
- General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency or of any Pennsylvania political subdivision

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Notes to Financial Statements  
For the Year Ended December 31, 2019

**NOTE 2      DEPOSITS AND INVESTMENTS (CONTINUED)**

- Shares of mutual funds whose investments are restricted to the above categories
- Repurchase agreements collateralized by United States treasury bills or federal agency securities
- Commercial paper issued by corporations or other business entities organized in accordance with federal and state law with a maturity not to exceed 270 days and by corporations or business entities who are rated in the top short-term category by at least two nationally recognized statistical rating organizations
- Bankers' acceptances that do not exceed 180 days' maturity and where the accepting bank is rated in the top short-term category by at least two nationally recognized statistical rating organizations
- Negotiable certificates of deposit with a remaining maturity of three years or less, issued by a nationally or state-chartered bank, a federal or state savings and loan association or a state-licensed branch of a foreign bank

Cash and cash equivalents exposed to credit risk were as follows at December 31, 2019:

Collateral held by the pledging bank under Act 72 but not in the Authority's name	\$ -
Insured by Federal Deposit Insurance Corporation	137,785
Government Money Market	<u>8,239,663</u>
 Total Deposits	 <u>\$ 8,377,448</u>
 Reconciliation to the Financial Statements:	
Cash and Cash Equivalents	\$ 17,477
Cash and Cash Equivalents – Restricted	
Cash and Cash Equivalents	<u>8,359,971</u>
 Total	 <u>\$ 8,377,448</u>

**External Investment Pool:**

The Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity and yield for Authority funds. The external investment pool is valued at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its costs on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. The fair value of the security held by the external investment pool is evaluated on at least a weekly basis using prices supplied from an independent pricing service. These values are compared to the amortized cost of the securities.

As of the year ended December 31, 2019 the Authority had funds totaling \$8,239,663 invested in a government money market fund. The money market fund invests at least 99.5% of its total assets in cash, U.S. government securities, and/or repurchase agreements that are collateralized fully by cash or U.S. government securities as of year ended December 31, 2019. The money market fund seeks to maintain a stable net asset value (NAV) of \$1.00 per share.

**CITY OF YORK SEWER AUTHORITY**  
**(A Component Unit of the City of York, Pennsylvania)**  
Notes to Financial Statements  
For the Year Ended December 31, 2019

**NOTE 2            DEPOSITS AND INVESTMENTS (CONTINUED)**

The Authority has the following recurring amortized cost measurement as of December 31, 2019 including unfunded commitments and redemption terms as follows:

	<u>Amortized Costs</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Government Money Market Fund	<u>\$ 8,239,663</u>	None	None	0 Days

- (1) External investment pool: This type includes pooled investments in bank repurchase agreements, certificates of deposit, U.S. treasuries and U.S. government obligations. The fair value of the investments in this type have been determined using amortized cost, which approximates fair value. Distributions from the fund will be received as the underlying investments of the funds are liquidated, which is expected to occur weekly.

**Custodial Credit Risk:**

Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have a formal investment policy for custodial credit risk. The Authority's investments cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form.

**Interest Rate Credit Risk:**

As a means of managing its exposure to fair value losses arising from increasing interest rates, the Authority's investment policy restricts the duration of short-term fixed income securities to a maximum of three years.

**Concentration of Credit Risk:**

The Authority places a limit on the amount the Authority may invest in any one company's stock at 3% of the total non-fiduciary portfolio, and no more than 20% of the total non-fiduciary portfolio shall be invested in any one industry sector. At year-end there were no investments in any one issuer greater than 3% and no more than 20% of the total non-fiduciary portfolio invested in any one industry sector.

**NOTE 3            DEBT**

In 2008, the Authority issued the Series of 2008 Guaranteed Sewer Revenue Bonds (2008 Revenue Bonds) in the amount of \$10,000,000. The 2008 Revenue Bonds were issued with the purpose to 1) finance capitalized interest; 2) fund a deposit to the debt service reserve fund; 3) plan, design, and construction of additions, improvements, renovations, and extraordinary repairs to the various buildings and facilities of the Authority; 4) pay the costs and expenses related to the issuance of Bonds. The Series of 2008 Bonds initially bore interest at an annual rate of 4.04%, with semi-annual payments of interest commencing on December 1, 2008. Annual payments of principal were to commence on June 1, 2019, with a final payment on December 1, 2022. In September 2014, the Authority approved a modification agreement for the Series of 2008 Bonds, which changed the interest rate to 3.20% to 3.25% and shortened the final payment to December 1, 2022. In February 2017, the Authority approved a third modification agreement for the Series of 2008 Bonds, which changed the interest rate to 2.94%. Also, in accordance with the third modification agreement, the Series of 2008 Bonds are subject to a prepayment fee of 2% of the principal sum being prepaid or redeemed during the period of February 10, 2017 through December 31, 2018 and 1% of the principal sum being prepaid or redeemed during the period of December 2, 2018 through December 1, 2021. Thereafter, outstanding principal is subject to prepayment without penalty.

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**NOTE 3      DEBT (CONTINUED)**

In September 2010, the Authority issued the Series A of 2010 Guaranteed Sewer Revenue Bonds (2010 Revenue Bonds) in the amount of \$10,540,000. The 2010 Revenue Bonds were issued with the purpose to 1) currently refund the Guaranteed Sewer Revenue Bonds, Series of 2007; 2) fund a debt service reserve fund; 3) pay the costs and expenses related to the issuance of the Bonds. Semi-annual payments of interest commenced on December 1, 2010. Annual payments of principal commenced on December 1, 2014, with a final payment on December 1, 2019. The Series A of 2010 Bonds was paid in full as of December 31, 2019.

In 2011, the Authority issued the Series A of 2011 Guaranteed Sewer Revenue Bonds (2011 Revenue Bonds) in the amount of \$1,500,000. The 2011 Revenue Bonds were issued with the purpose to utilization, development, and construction of alternative and lean energy projects. Monthly payments of principal and interest commenced on September 1, 2011, with a final payment on August 1, 2021.

In December 2017, the Authority issued the Series of 2017 Guaranteed Sewer Revenue Bonds (2017 Revenue Bonds) in the amount of \$21,025,000. The 2017 Revenue Bonds were issued with the purpose to advance refunding of the Guaranteed Sewer Revenue Bonds, Series of 2010, and payment of the costs and expenses related to the issuance of the Bonds. Semi-annual payments of interest commence on June 1, 2018. Annual payments of principal commence on December 1, 2018, with a final payment on December 1, 2027.

In December 2019, the Authority issued the Series of 2019 Guaranteed Sewer Revenue Bonds (2019 Revenue Bonds) in the amount of \$10,000,000. The 2019 Revenue Bonds were issued with the purpose to pay for the planning, design and construction of additions, improvements, renovations and repairs to the acquisition and installation of related Sewer System capital assets, paying capitalized interest and paying the costs related to the issuance of the Bonds. The Authority may draw down on this bond until April 15, 2022. All outstanding principal and accrued and unpaid interest is due on April 15, 2022. As of December 31, 2019, the outstanding balance is \$58,696.

The following is a summary of changes in long-term debt for the year ended December 31, 2019:

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Amount Due Within One Year
Revenue Bonds	\$ 34,649,981	\$ 58,696	\$ (3,819,368)	\$ 30,889,309	\$ 3,935,919
Total	\$ 34,649,981	\$ 58,696	\$ (3,819,368)	\$ 30,889,309	\$ 3,935,919

The future annual debt service requirements to maturity including total interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 3,935,919	\$ 1,313,561	\$ 5,249,480
2021	4,034,694	1,200,975	5,235,669
2022	3,883,696	1,085,087	4,968,783
2023	3,975,000	951,750	4,926,750
2024	4,175,000	753,000	4,928,000
2025-2027	10,885,000	964,500	11,210,250
Total	\$ 30,889,309	\$ 5,629,623	\$ 36,518,932



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**NOTE 4                   LEASES AND RELATED PARTY TRANSACTIONS**

In 1987, the Authority entered into a 30-year direct financing lease with the City for the sewer system. The sewer system and related assets are, therefore, not reflected in the accompanying financial statements. Under this lease, the City is required to pay the Authority semiannual installments on May 15 and November 15 of each year, an amount equal to one hundred five percent (105%) of the principal, interest, and all other amounts due under the 1987 Bond Indenture. The installment payments may be reduced in certain instances.

In July 2008, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2008 (Series of 2008 Bonds), in the principal amount of \$10,000,000. The purpose of the Series of 2008 Bonds is described in Note 3. Under this lease, the City is required to pay the Authority an amount equal to one hundred five percent (105%) of the principal, interest, and all other amounts due under the Fourth Supplemental Lease of the 1987 Bond Indenture. The City has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series of 2008 Bonds.

In September 2010, the Authority issued Guaranteed Sewer Revenue Bonds, Series A of 2010 (Series A of 2010 Bonds), in the principal amount of \$10,540,000. The Series A of 2010 Bonds was paid in full as of December 31, 2019.

In March 2011, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2011 (Series of 2011 Bonds), in the principal amount of \$1,500,000. The purpose of the Series of 2011 Bonds is described in Note 3. Under this lease, the City is required to pay the Authority an amount equal to one hundred five percent (105%) of the principal, interest, and all other amounts due under the Seventh Supplemental Lease of the 1987 Bond Indenture. The City has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series of 2011 Bonds.

In December 2017, the Authority issued the Series of 2017 Bonds, in the principal amount of \$21,025,000. The purpose of the Series of 2017 Bonds is described in Note 3. Under this lease, the City is required to pay the Authority an amount equal to one hundred five percent (105%) of the principal, interest, and all other amounts due under the Thirteenth Supplemental Lease of the 1987 Bond Indenture. The City has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series of 2017 Bonds.

In December 2019, the Authority issued Series of 2019 Bonds, in the principal amount of \$10,000,000. The purpose of the Series of 2019 Bonds is described in Note 3. Under this lease, the City is required to pay the Authority an amount equal to one hundred five percent (105%) of the principal, interest, and all other amounts due under the Fourteenth Supplemental Lease of the 1987 Bond Indenture. The City has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series of 2019 Bonds. As of December 31, 2019, the outstanding balance is \$58,696, all of which is due during the year ended December 31, 2022.

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**NOTE 4 LEASES AND RELATED PARTY TRANSACTIONS (CONTINUED)**

The following is a schedule of future minimum lease payments under the lease agreements and all supplements as of December 31, 2019:

<u>Year</u>	<u>Amount</u>
2020	\$ 5,511,954
2021	5,497,452
2022	5,217,222
2023	5,173,088
2024	5,174,400
2025-2027	<u>11,770,763</u>
Total	38,344,879
Less: Unearned Interest	<u>(7,455,570)</u>
Net Investment in Direct Financing Lease Receivable	<u>\$ 30,889,309</u>

**NOTE 5 DEFEASED DEBT**

The Authority has defeased certain debt by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. The trust account assets and the liability of the defeased debt are not included in the Authority's financial statements. At December 31, 2019, the following defeased debt was outstanding:

	<u>Funds Escrowed as of December 31, 2019</u>	<u>Defeased Debt Outstanding as of December 31, 2019</u>
Guaranteed Sewer Revenue Bonds Series of 2010	<u>\$ 23,100,356</u>	<u>\$ 22,745,000</u>

**NOTE 6 NEGATIVE NET POSITION**

The Authority had a negative net position as of December 31, 2019 in the amount of \$6,320. This net deficit in net position is primarily caused by accounts payable related to operating activities.

**NOTE 7 LEASES**

The Authority is the lessor of its property located at 1601 Toronita Street under a lease agreement expiring June 13, 2020. The lease has a term of 5 years that include monthly rentals totaling \$167,645 per year. The lease provides for rental payment increase of three percent each year.

The following is a schedule of future minimum rental payments under the lease as of December 31, 2019:

<u>Year</u>	<u>Amount</u>
2020	<u>\$ 86,337</u>
Total	<u>\$ 86,337</u>

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**NOTE 8                    CONTINGENCIES AND COMMITMENTS**

The Authority has been operating in an environment that has been economically impacted by the COVID-19 pandemic. The future impact of the pandemic on the Authority is not known as of the release of these financial statements. However, management is monitoring the current conditions and their potential impact.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Authority management believes disallowances, if any, will be immaterial.

During the year ended December 31, 2018, the Authority approved several contracts for the Township Interceptor Project totaling \$3,305,695. The balance of the contracts remaining at December 31, 2019 was \$217,410.

During the year ended December 31, 2019, the Authority approved several contracts for the Township Primary Clarifier Upgrade totaling \$1,006,000. The balance of the contracts remaining at December 31, 2019 was \$980,253.

During the year ended December 31, 2019, the Authority approved contracts for the Cordorus Creek Project totaling \$169,735. The balance of the contracts remaining at December 31, 2019 was \$149,482.

During the year ended December 31, 2019, the Authority approved other contracts totaling \$247,100. The balance of the contracts remaining at December 31, 2019 was approximately \$38,965.

**NOTE 9                    PRIOR PERIOD ADJUSTMENT**

During 2019, management determined that the following prior period adjustment was required in the financial statements.

Beginning Net Position	
as Previously Reported, December 31, 2018	\$ 3,772,713
Accounts Receivable	<u>174,898</u>
Net Position, as Restated, January 1, 2019	<u>\$ 3,947,611</u>

**NOTE 10                  SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 26, 2024, which is the date the financial statements were available to be issued.

Subsequent to December 31, 2019, the Authority approved multiple construction and professional service contracts for sewer projects totaling approximately \$6.0 million.

On April 6, 2021, the Authority closed on a loan in the amount of \$6,807,942 from Pennsylvania Infrastructure Investment Authority. Proceeds of this loan will be used to pay off the existing 2019 PNC Bank loan and pay for the completion of the filter replacement project.

On April 7, 2021, the Authority executed an Asset Purchase Agreement authorizing the sale of the sewer system to Pennsylvania American Water Company for \$235 million under the terms and conditions contained therein. The Authority was fully dissolved at this execution.