

The Municipal Authority of the Borough of Lewistown

Financial Statements and
Supplementary Information

December 31, 2019 and 2018

The Municipal Authority of the Borough of Lewistown

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December 31, 2019 and 2018

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Independent Auditors' Report

To the Board of Directors of
The Municipal Authority of the Borough of Lewistown

Report on the Financial Statements

We have audited the accompanying financial statements of The Municipal Authority of the Borough of Lewistown (the Authority), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed on 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Municipal Authority of the Borough of Lewistown as of December 31, 2019 and 2018, and the respective changes in its net position and its cash flows for the years 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 7, the Schedule of Changes in the Authority's Net Pension Liability (Asset) and Related Ratios on page 32 and the Schedule of Authority's Contributions on page 33 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 (GASB) 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 audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedules to Statements of Revenue, Expenses and Changes in Net Position on pages 29 - 30 and the Schedule of Revenue, Expenses and Changes in Net Position - Budget to Actual - Budgetary Basis on page 31 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information, except for the unaudited budget information, has been subjected to the auditing procedures applied in the audits 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, except for the unaudited budget information, upon which we express no opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2020, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
May 29, 2020

The Municipal Authority of the Borough of Lewistown

Management's Discussion and Analysis
(Unaudited)
December 31, 2019 and 2018



In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the following is presented as the Management's Discussion and Analysis (MD&A) to the financial statements that follow. The financial statements are based on an accrual basis of accounting.

The Municipal Authority of the Borough of Lewistown (the Authority) serves residents in Mifflin County, Pennsylvania by providing potable drinking water, through a complex maze of almost 300 miles of transmission and distribution mains; controlled in 17 different pressure zones by pressure reducing valves, pumps and elevated water storage tanks. The Authority provides fire protection through nearly 600 hydrants. During 2019, the Authority serviced approximately 30,000 residents in the County and maintained over 11,000 billable accounts. During 2019, all of the activities were business-type transactions. The Authority's revenue created through rates and fees is primarily used to fund day-to-day operations and used to make payments on long-term debt.

	<u>2019</u>	<u>2018</u>
Total Water Revenue Bonds, net of discount	\$ 17,762,124	\$ 19,234,305

At December 31, 2019, three debt obligations remain outstanding: Water Revenue Bonds: Series 2014, Series A of 2015, and Series 2015 (PennVest 2015 Bond).

The Authority spends a considerable amount of time preparing an annual cash basis operating budget, as well as a capital budget for system and equipment improvements. These budgets are prepared so that rates and fees can be set to meet the expenses of the day-to-day operations, while also keeping the water provided affordable to the customers. On January 1, 2019, there was no water rate increase. The user rate for 2019 was \$4.92 per one thousand gallons of metered water. It is important to note that this rate is very reasonable when compared to other utility's fees in the state. With this rate, the Authority estimated the annual operating revenue to be \$5,783,593 and operating expenses to be \$2,979,962.

The following is a summary of the Schedule of Revenue, Expenses and Changes in Net Position - Budget to Actual - Budgetary Basis, presented in its entirety later in the financial statements, for the year ended December 31, 2019:

<u>Description</u>	<u>Actual (Budgetary Basis)</u>	<u>Budget</u>
Total operating revenue	\$ 5,808,483	\$ 5,783,593
Total operating expenses	(2,718,849)	(2,979,962)
Operating income	3,089,634	2,803,631
Nonoperating revenue (expense)	(1,676,959)	(1,700,911)
Capital expenditures	(1,955,479)	(2,485,466)
Net cash and investments used	<u>\$ (542,804)</u>	<u>\$ (1,382,746)</u>

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Management's Discussion and Analysis
(Unaudited)
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During 2019, the operation provided \$3,089,634 of cash and investments. This was \$286,003 more than the budget estimate. The detailed analysis below will provide supporting data to show that the operating revenue was within 1.0 percent of the budget expectations and expenses were managed 8.8 percent below budget. This resulted in an operating income that was greater than projected.

Revenue

Metered revenue is based on historical consumption data and projection trends for the upcoming year.

- During 2019, water billings, in general, were 2 percent under the budget projection. Domestic metered consumption revenues, were under budget and were partially offset by increased Commercial and Industrial customer usage. Metered consumption can be impacted by weather conditions and manufacturing demand at the industrial customer sites.

Unmetered revenue consists of other revenue sources not included in the scheduled billing cycles during the year.

- Unmetered revenue was 21.9 percent above the budget projection. Contributing factors were increased penalty and miscellaneous revenue were higher than budget projections.

The Authority has seven categories for operating expense classifications. Total operating expenses for the year ended December 31, 2019 were under budget by \$261,113 or 8.8 percent. Some significant variances, which should be pointed out when comparing the expense categories on the Schedule of Revenue, Expenses and Changes in Net Position - Budget to Actual - Budgetary Basis are as follows:

General

- Benefit expenses were managed 6.2 percent under budget. The primary contributors were medical insurance premiums were projected to increase at a higher rate and employee health reimbursement costs were lower than projected for 2019.
- Engineering and legal service expenses were 47.3 percent under budget. A portion of engineering expenses were assigned to capitalized projects.

Filter Plant

- Total Filter Plant expenses were 15.1 percent under budget.
- Filter Plant maintenance activities and the supporting labor were under budget projections by \$46,456.
- Electricity and heating costs were \$7,534 under budget projections.

Purification

- Purification regulatory monitoring, chemical and lab supply expenses were over budget by 9.1 percent. Regulatory monitoring expenses related to SRBC testing increased during 2019. The primary contributors for purification chemicals and lab supply expense increases during 2019 were due to weather influences to raw water properties during the year.

Distribution

- Overall distribution expenses were 13.0 percent under budget.
- Labor related to water mains and service lines were under budget by \$16,021 and \$18,602, respectively, due to decreased activity during the year and increased capital project labor.
- Meter maintenance expense was under budget by \$23,873 as costs for large meter replacements were capitalized.

The Municipal Authority of the Borough of Lewistown

Management's Discussion and Analysis
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Water Collection System

- The budget includes a provision for well operations as a primary supply water source. The wells were not utilized in this capacity in 2019. Well power was \$35,961 under budget projections.

Timber Management

- The Timber Management Program actively manages a 350-acre parcel in Treaster Valley for environmental management benefits, as well as providing supplemental revenue. The management plan is updated annually. Cutting activity was completed in 2019.

During 2019, the budget was approved for capital expenditures of \$2,485,466. In total, the Authority spent over \$1,900,000 on projects and equipment upgrades. Two major Filter Plant upgrade projects were completed in 2019 and over \$400,000 noncash assets were dedicated to the Authority. The capital contributions and additions are listed below:

Account	Description	Total	
Filtration Plant	Ozone Monitor	\$ 8,156	
	Cat Walk	18,726	
	Back Wash Pumps	11,150	
	Spectrophotometer	3,223	
	Dehumidifier	7,244	
	SCADA System Upgrade	259	
Reservoirs, Water Supply and Storage Tanks	Milroy/McCoy Well Level Sensor	4,462	
	Tank Mixer, Juniata Terrace	7,655	
	Tank Mixer, Rockville	8,070	
	West End Tank	914	
Chemical Treatment Plant	Hypo Tanks	608	
	Containment Tanks	7,866	
	Ozone Upgrade	1,096,648	
Control Facilities and Equipment Distribution Mains	4" CLA Valve, Freedom Ave	4,389	
	Lincoln Ave, Lewistown	82,141	
	Old US Hwy 322 20" Main, Milroy	473,704	
	Central PA Clinic 5-2016	150,425	
	Centre Lime & Stone Co Inc 1-2019	171,281	
	Valley View Retirement Community 2-2019	73,198	
	Central PA Clinic Connection, Belleville	3,273	
	Duchess St, Dolin, Reedsville	906	
	Taylor Dr, Miller, Reedsville	2,076	
	Service Lines 3/4"	Labor/Material and Supplies	11,839
	Service Lines > 1"	Labor/Material and Supplies	9,935
	Meters	Meters/ERT's	31,929
	Fire Hydrants	New/Replaced System Hydrants	65,042
	General Office Equipment	Board Room Chairs (10)	1,251
Other General Equipment	2019 Ford F350 and Accessories	34,894	
	John P Place Fill Station Controller	5,650	
	Magnum Pump and Parts MTP6DZV 2019	44,396	
	Line Locator RD5100H2O+	3,946	
Construction in progress	South Hills Pump Station	3,888	
		<u>\$ 2,349,144</u>	

The Municipal Authority of the Borough of Lewistown

Management's Discussion and Analysis
(Unaudited)
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The Authority maintains over \$60 million worth of capital assets. A detailed table of the capital assets is included in the financial statements as Note 3 to the financial statements. The following are summarized values at December 31:

	<u>2019</u>	<u>2018</u>
Capital assets	\$ 64,009,633	\$ 61,940,012
Less accumulated depreciation	<u>(26,106,967)</u>	<u>(24,914,977)</u>
Net book value	<u>\$ 37,902,666</u>	<u>\$ 37,025,035</u>

During the year ended December 31, 2019, the net book value on the Authority's capital assets increased by \$877,631 as current year capital expenditures exceeded depreciation.

The following is a summary of the Statements of Net Position at December 31:

	<u>2019</u>	<u>2018</u>
Capital assets, net of depreciation	\$ 37,902,666	\$ 37,025,035
Cash and investments	8,376,397	8,919,201
Other assets	<u>1,439,566</u>	<u>1,324,872</u>
Total assets	47,718,629	47,269,108
Deferred outflows of resources	<u>1,238,540</u>	<u>1,379,035</u>
Total assets and deferred outflows of resources	<u>\$ 48,957,169</u>	<u>\$ 48,648,143</u>
Current liabilities	\$ 1,920,445	\$ 1,881,022
Long-term liabilities	16,281,044	17,789,019
Net pension liability	<u>99,993</u>	<u>365,238</u>
Total liabilities	<u>18,301,482</u>	<u>20,035,279</u>
Deferred inflows of resources	<u>449,824</u>	<u>169,818</u>
Net investment in capital assets	20,588,924	18,434,399
Restricted	4,895,628	6,218,216
Unrestricted	<u>4,721,311</u>	<u>3,790,431</u>
Total net position	<u>30,205,863</u>	<u>28,443,046</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 48,957,169</u>	<u>\$ 48,648,143</u>

When looking at the summary of the Statements of Net Position at December 31, 2019, compared to December 31, 2018, other notable items are as follows:

- Total assets increased \$449,521.
- Long-term liabilities decreased by \$1,507,975. The annual debt service principal payments were made in 2019 and no additional debt was taken.
- There was a \$265,245 decrease in Net Pension Liability. The decrease in pension liability is primarily driven by the net difference between projected and actual investment earnings.

The Authority entered 2019 with a net position of \$28,443,046. At the close of operations on December 31, 2019, the Authority's net position was \$30,205,863 as a result of net income in the amount of \$1,762,817.

The Municipal Authority of the Borough of Lewistown

Management's Discussion and Analysis
(Unaudited)
December 31, 2019 and 2018

The following is a summary of the Statements of Revenue, Expenses and Changes in Net Position for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Total operating revenue	\$ 5,893,339	\$ 5,732,679
Total operating expenses	<u>(2,771,633)</u>	<u>(2,746,786)</u>
Operating income before depreciation	3,121,706	2,985,893
Depreciation	<u>(1,471,232)</u>	<u>(1,490,825)</u>
Operating income	1,650,474	1,495,068
Total nonoperating expenses	(304,242)	(356,258)
Capital contributions	<u>416,585</u>	<u>33,090</u>
Net income	<u>\$ 1,762,817</u>	<u>\$ 1,171,900</u>

The Authority prepared and approved an Operating Budget with operating expenses of \$4,926,826 for 2020. The operating expenses include funding the Authority's defined benefit pension plan of \$107,740. This budget was created factoring no user rate increase. The fee charged for each unit of metered water consumed (1,000 gallons) will remain \$4.92. It has been calculated that an average quarterly bill will be unchanged. In addition, \$826,350 has been approved for capital additions and improvements.

The Authority plans to install approximately 3,000 lineal feet of 6" and 8" water main during the year ending December 31, 2020. These capital projects will improve water quality, fire protection capabilities and replace aged infrastructure. In addition, a major infrastructure maintenance project on 4th Street in Lewistown will replace approximately 5,000 lineal feet of 120-year-old 10" cast iron main with new 8" ductile iron pipe. There are also several residential and commercial waterline projects that are scheduled for construction, including 800 lineal feet of new main in Milroy, Armagh Township to serve a new commercial sub-division. One additional project is in the design phase to add a 10" fire line to serve numerous manufacturing and warehouse facilities.

There are several capital improvement projects planned at Laurel Creek Filtration Plant for the year 2020. Next generation control valves will be replaced on filter units to increase reliability. The rubber roof at the Filtration Plant will also be replaced as a maintenance item. The Authority will also be adding/replacing important water quality monitoring equipment at the Laurel Creek Filtration Plant. Finally, engineering will begin for some water treatment enhancements, including the replacement of our onsite purification equipment as well as the replacement of critical automation control components.

There are plans in the community for new housing developments and employment opportunities through the addition of commercial and industrial facilities within the County. Growth should be experienced during 2020 and beyond.

If you would like to hear more about Mifflin County and the opportunities here or would like more details about the Authority and its operations, feel free to contact our office at (717) 248-0165, view our website www.lewistownwater.com, or write to: The Municipal Authority of the Borough of Lewistown, 70 Chestnut Street, Lewistown, Pennsylvania 17044.

This report has been prepared in accordance with GASB Statement No. 34 to provide useful information to anyone interested in an overview of the operations of the Authority, as well as to demonstrate accountability for the business the Authority conducts.

The Municipal Authority of the Borough of Lewistown

Statements of Net Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 3,480,769	\$ 2,204,796
Certificates of deposit	-	496,189
Accounts receivable, billed	503,857	495,167
Accounts receivable, unbilled	698,706	625,423
Prepaid insurance	33,621	23,820
Inventory	203,382	180,462
	<u>4,920,335</u>	<u>4,025,857</u>
Total current assets		
Noncurrent Assets		
Restricted investments held with trustee	4,895,628	6,218,216
Capital assets, not subject to depreciation	386,377	1,243,765
Capital assets, net of depreciation	37,516,289	35,781,270
	<u>42,798,294</u>	<u>43,243,251</u>
Total noncurrent assets		
Total assets	<u>47,718,629</u>	<u>47,269,108</u>
Deferred Outflows of Resources		
Pension	709,193	735,367
Deferred loss on refunding	529,347	643,668
	<u>1,238,540</u>	<u>1,379,035</u>
Total deferred outflows of resources		
Total assets and deferred outflows of resources	<u>\$ 48,957,169</u>	<u>\$ 48,648,143</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 147,358	\$ 127,799
Accrued payroll	35,495	32,062
Consumer deposits	25,522	27,064
Accrued interest	182,393	197,531
Unearned revenue	14,720	17,603
Current portion of Water Revenue Bonds	1,514,957	1,478,963
	<u>1,920,445</u>	<u>1,881,022</u>
Total current liabilities		
Long-Term Liabilities		
Compensated absences	33,877	33,677
Water Revenue Bonds	16,247,167	17,755,342
Net pension liability	99,993	365,238
	<u>16,381,037</u>	<u>18,154,257</u>
Total long-term liabilities		
Total liabilities	<u>18,301,482</u>	<u>20,035,279</u>
Deferred Inflows of Resources, Pension		
	<u>449,824</u>	<u>169,818</u>
Net Position		
Net investment in capital assets	20,588,924	18,434,399
Restricted for capital projects	1,440,363	2,603,042
Restricted for debt service	3,455,265	3,615,174
Unrestricted	4,721,311	3,790,431
	<u>30,205,863</u>	<u>28,443,046</u>
Total net position		
Total liabilities, deferred inflows of resources and net position	<u>\$ 48,957,169</u>	<u>\$ 48,648,143</u>

See notes to financial statements

The Municipal Authority of the Borough of Lewistown

Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenue		
Metered revenue:		
Domestic	\$ 3,656,212	\$ 3,530,202
Commercial	1,044,563	1,030,704
Industrial	450,320	407,769
Public	254,896	258,134
Capital component collections	141,244	140,869
Fire protection	130,456	128,854
	<u>5,677,691</u>	<u>5,496,532</u>
Unmetered Revenue	<u>215,648</u>	<u>236,147</u>
	<u>5,893,339</u>	<u>5,732,679</u>
Operating Expenses		
General	1,770,120	1,697,535
Filter plant	394,975	363,141
Distribution	361,851	461,933
Purification	187,574	159,347
Control stations	45,814	44,524
Water collection	11,299	20,306
	<u>2,771,633</u>	<u>2,746,786</u>
	3,121,706	2,985,893
Depreciation	<u>1,471,232</u>	<u>1,490,825</u>
	<u>1,650,474</u>	<u>1,495,068</u>
Nonoperating Revenue (Expenses)		
Interest expense	(505,052)	(547,231)
Investment income	127,234	153,374
Interest income	73,857	37,599
Loss on disposal of assets	(281)	-
	<u>(304,242)</u>	<u>(356,258)</u>
Capital Contributions	<u>416,585</u>	<u>33,090</u>
	1,762,817	1,171,900
Net Position, Beginning	<u>28,443,046</u>	<u>27,271,146</u>
Net Position, Ending	<u>\$ 30,205,863</u>	<u>\$ 28,443,046</u>

See notes to financial statements

The Municipal Authority of the Borough of Lewistown

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 5,808,483	\$ 5,762,747
Cash payments to vendors	(1,480,345)	(1,471,175)
Cash payments to employees for services	(1,236,962)	(1,284,120)
Cash payments to customers	(1,542)	(782)
	<u>3,089,634</u>	<u>3,006,670</u>
Net cash provided by operating activities	<u>3,089,634</u>	<u>3,006,670</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,955,479)	(1,377,969)
Principal paid on Water Revenue Bonds	(1,478,963)	(1,442,979)
Interest paid on debt service	(399,087)	(429,653)
Principal paid on capital lease obligations	-	(27,078)
Capital grants and contributions received	-	15,840
Proceeds from sale of capital assets	-	13,160
Interest paid on capital lease obligations	-	(866)
	<u>(3,833,529)</u>	<u>(3,249,545)</u>
Net cash used in capital and related financing activities	<u>(3,833,529)</u>	<u>(3,249,545)</u>
Cash Flows From Investing Activities		
Net proceeds from the sale of investment securities	1,322,588	53,188
Proceeds from maturity of certificates of deposit	496,189	-
Investment income	127,234	153,374
Interest income	73,857	37,599
Purchase of certificates of deposit	-	(244,000)
	<u>2,019,868</u>	<u>161</u>
Net cash provided by investing activities	<u>2,019,868</u>	<u>161</u>
Net increase (decrease) in cash and cash equivalents	1,275,973	(242,714)
Cash and Cash Equivalents, Beginning	<u>2,204,796</u>	<u>2,447,510</u>
Cash and Cash Equivalents, Ending	<u>\$ 3,480,769</u>	<u>\$ 2,204,796</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,650,474	\$ 1,495,068
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,471,232	1,490,825
Changes in net pension liability (asset) (net of related deferred inflows/outflows of resources)	40,935	63,466
(Increase) decrease in:		
Accounts receivable	(81,973)	32,568
Prepaid insurance	(9,801)	958
Increase (decrease) in:		
Accounts payable	19,559	(80,139)
Accrued payroll	3,433	5,910
Consumer deposits	(1,542)	(782)
Unearned revenue	(2,883)	(2,500)
Compensated absences	200	1,296
	<u>\$ 3,089,634</u>	<u>\$ 3,006,670</u>
Net cash provided by operating activities	<u>\$ 3,089,634</u>	<u>\$ 3,006,670</u>
Supplemental Disclosures		
Noncash investing and financing activities:		
Accepted dedication of capital assets	<u>\$ 416,585</u>	<u>\$ 17,250</u>
Deferred interest expense on bond obligations	<u>\$ 121,103</u>	<u>\$ 131,472</u>

See notes to financial statements

The Municipal Authority of the Borough of Lewistown

Notes to Financial Statements
December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Description of Operations

The Municipal Authority of the Borough of Lewistown (the Authority) is a municipal authority incorporated during March 1944, organized and existing under the Pennsylvania Municipality Authorities Act, as amended. The Authority was created to construct and operate a complete water system, including all related and necessary facilities for providing public water service to customers throughout Mifflin County, Pennsylvania.

In accordance with the terms of the trust indentures securing the Authority's debt, an annual operating budget is adopted for accounting control and internal reporting purposes. There is no legal requirement for the adoption of an annual appropriated budget.

Financial Reporting Entity

Accounting principles generally accepted in the United States of America provide criteria for determining the nature of certain intergovernmental relationships. Pursuant to such criteria, the Authority meets the definition of a related-party of the Borough of Lewistown, Pennsylvania (the Borough), as the accountability of Borough Council does not extend beyond appointing all Authority board members. Accordingly, the financial reporting entity will consist solely of the accounts and funds of the Authority.

Fund Accounting

The Authority uses a proprietary fund to report its activities. A proprietary fund is used to account for operations, which are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a propriety fund, the Authority records both operating revenue and expenses and nonoperating revenue and expenses. Operating revenue and expenses result from the ongoing principal operations of the Authority. Operating revenue consists primarily of consumption charges or other charges and fees for services, whereas operating expenses represent the cost of operations, which includes depreciation. Nonoperating revenue and expenses do not result from operations and relate to financing and investing types of activities, as well as nonexchange transactions. This includes investment income, interest income, interest expense and the gain or loss resulting from the disposal of assets, if any.

Basis of Accounting

The financial statements of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting, whereby all revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Depreciation and amortization of assets are recognized on the statements of revenue, expenses and changes in net position. All assets, deferred outflows of resources, liabilities or deferred inflows of resources associated with the operation of the Authority are included on the statements of net position.

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Cash and Cash Equivalents and Certificates of Deposit

Cash consists of currency on hand, demand deposits and negotiable certificates of deposit. The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As a result, the Authority classifies their interest in an external investment pool as cash and cash equivalents on the statements of net position, but is classified as investments for purposes of the disclosures in Note 2, *Cash Deposits and Investments*.

Accounts Receivable and Bad Debt

The Authority writes-off any accounts receivable determined to be uncollectible. Potential bad debt at the end of the period is generally immaterial in relation to the total accounts receivable. Therefore, a reserve for doubtful accounts has not been established.

Accounts Receivable, Unbilled

During the year, customers' water meters are read and bills are rendered throughout monthly or quarterly periods. Because not every meter is read on the same date and not all customers are billed through December 31st, revenue for water distributed is estimated and accrued at fiscal year-end to match revenue with related expenses.

Inventory

Inventory consists principally of spare parts, which are recorded when purchased and expensed or capitalized when used. Inventory is recorded using the first-in, first-out (FIFO) method of accounting.

Pension

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to the pension, and pension expense, information about the fiduciary net position of The Municipal Authority of the Borough of Lewistown Pension Plan (the Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan.

Deferred Inflows/Outflows of Resources

Pursuant to the Governmental Accounting Standards Board (GASB) Concepts Statement No. 4, *Elements of Financial Statements*, the "deferred outflow of resources" is a consumption of net position (assets minus liabilities) by the government that is applicable to a future period, while an "asset" is a resource with present service capacity that the government presently controls. The "deferred inflow of resources" are an acquisition of net position (assets minus liabilities) by the government that is applicable to a future reporting period, while a "liability" is a present obligation to sacrifice resources that the government has little or no discretion to avoid. Deferred outflows and inflows of resources are reported separate from assets and liabilities on the statements of net position.

When debt is refunded, the difference between the reacquisition price and the net carrying amount of the extinguished debt is recognized as deferred outflows of resources. The amount is amortized as a component of interest expense over the shorter of the new debt's life or the remaining life of the old debt. Changes in the net pension liability (asset) not included in pension expense are also required to be reported as deferred outflows or inflows of resources (see Note 6 for additional information).

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Investments Held With Trustee

In accordance with the terms of the trust indentures securing the Water Revenue Bonds, moneys are held in various funds, segregated for specific use and for the security of the bondholders, and maintained by an independent trustee. Investments held with trustee consist of the following funds at December 31:

	<u>2019</u>	<u>2018</u>
Debt service fund	\$ 1,628,797	\$ 1,604,548
Debt service reserve fund	1,826,468	2,010,626
Bond redemption and improvement fund	<u>1,440,363</u>	<u>2,603,042</u>
Total investments held with trustee	<u>\$ 4,895,628</u>	<u>\$ 6,218,216</u>

The Authority's investments are carried at fair value, which approximates cost. Any differences between the fair values and costs of investments are reflected in investment income.

Capital Assets

Capital assets are stated at cost. Depreciation is provided using the straight-line method of accounting over the expected economic useful lives of the assets. The expected economic useful lives of the assets are listed below.

Dam and reservoirs	10-100 years
Water treatment plant	5-50 years
Distribution system	7-50 years
Office building	10-25 years
Equipment	5-50 years

When assets are retired or otherwise disposed of, the applicable cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income for the period. Routine expenditures for maintenance and repairs are charged against income as incurred. Expenditures, which significantly increase the value or extend the useful lives of the assets, are capitalized.

Consumer Deposits

Consumer deposits covering water billings to tenants (in lieu of property owners), at the Authority's discretion, may be refunded after two years of timely payments by the consumer or after service is discontinued.

Components of Net Position

Proprietary fund financial statements are required to report net position in three components:

Net Investment in Capital Assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings and deferred outflows of resources, which are attributable to the acquisition, construction or improvement of those assets.

Restricted - This consists of net resources, which are legally restricted by outside parties, or by law, through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and then unrestricted resources when they are needed.

Unrestricted - This consists of net assets, which do not meet the definition of "Net Investment in Capital Assets" or "Restricted."

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Compensated Absences

Accumulated compensated absences consist of pooled leave (vacation time) attributable to substantially all full-time employees. Employees are not allowed to carry over unused leave from year to year. Vacation time for staff employees renews on January 1 each year and should be used by the December 31 of the same year. Vacation time for union employee renews each year on the employee's anniversary date and should be used by the following year anniversary date. Any unused vacation time is forfeited. Accumulated compensated absences amounted to \$33,877 and \$33,677 at December 31, 2019 and 2018, respectively.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

New Accounting Principles

The Authority adopted GASB Statement No. 88, *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements* in 2019. Statement No. 88 enhances information included in the notes to financial statements related to debt, including lines of credit, collateral for debt and terms of events of default with significant finance related consequences. Statement No. 88 expanded and enhanced disclosures surrounding debt, but otherwise did not have any material impact on the Authority's financial statements.

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. The Authority is required to adopt Statement No. 89 for its calendar year 2020 financial statements, with early adoption encouraged. The Authority adopted Statement No. 89 and recognized interest cost incurred before the end of a construction period as an expenses in 2019.

The Authority adopted GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, for the year ended December 31, 2019. GASB 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain pronouncements.

2. Cash Deposits and Investments

Pennsylvania statutes and the Authority's trust indentures provide for investment of governmental funds into certain authorized investment types, including U.S. Treasury bills, other short-term obligations of the U.S. and Pennsylvania government obligations, insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits, however, they do allow pooling of government funds for investment purposes. The deposit and investment policy of the Authority is to adhere to state statutes and the trust indentures.

Cash Deposits

Custodial credit risk for cash deposits is the risk that, in the event of a failure of a depository financial institution, the Authority will not be able to recover deposits, which are in the possession of the institution.

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The following is a summary of the Authority's cash deposits (bank balances) at December 31:

	<u>2019</u>	<u>2018</u>
Insured (FDIC)	\$ 272,073	\$ 748,228
Collateralized held by institution's trust department not in the Authority's name	<u>2,930,389</u>	<u>1,905,643</u>
Total cash deposits and certificates of deposit	<u>\$ 3,202,462</u>	<u>\$ 2,653,871</u>

The Federal Deposit Insurance Corporation (FDIC) insures the Authority's deposits. Those deposits exceeding the FDIC limit of \$250,000 are collateralized in accordance with the Commonwealth of Pennsylvania Act 72, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name, not the Authority's name. Therefore, the Authority had \$2,930,389 and \$1,905,643, respectively, exposed to custodial credit risk at December 31, 2019 and 2018. The Authority does not have a formal investment policy for custodial credit risk specific to cash and cash equivalents.

Investments

The following is a summary of investments at December 31:

<u>Investment Type</u>	<u>Reported on the Statements of Net Position</u>	<u>Maturity</u>	<u>2019 Fair Value</u>
External investment pool	Cash and cash equivalents	January 1, 2020	<u>\$ 253,930</u>
Money market mutual funds	Investments held with trustee	January 1, 2020	<u>\$ 4,895,628</u>
<u>Investment Type</u>	<u>Reported on the Statements of Net Position</u>	<u>Maturity</u>	<u>2018 Fair Value</u>
External investment pool	Cash and cash equivalents	January 1, 2019	<u>\$ 3,511</u>
Money market mutual funds	Investments held with trustee	January 1, 2019	<u>\$ 6,218,216</u>

The Authority measures its investments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Authority for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the same term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

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Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

The valuation methods for recurring fair value measurements are as follows at December 31:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
External investment pool	\$ -	\$ 253,930	\$ -	\$ 253,930
Money market mutual funds	4,895,628	-	-	4,895,628
Total	<u>\$ 4,895,628</u>	<u>\$ 253,930</u>	<u>\$ -</u>	<u>\$ 5,149,558</u>

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
External investment pool	\$ -	\$ 3,511	\$ -	\$ 3,511
Money market mutual funds	6,218,216	-	-	6,218,216
Total	<u>\$ 6,218,216</u>	<u>\$ 3,511</u>	<u>\$ -</u>	<u>\$ 6,221,727</u>

The money market mutual funds are valued based on unadjusted quoted prices in active markets and are measured using Level 1 inputs. The external investment pool are valued based on quoted prices of similar assets, with similar terms, in actively traded markets and are measured using Level 2 inputs. There have been no changes in the methodologies at December 31, 2019 and 2018.

Credit risk for investments is the risk that an issuer or counterparty will not fulfill its obligations. At December 31, 2019 and 2018, the external investment pool and the money market mutual funds received an AAAM rating from Standard and Poor's, an independent credit rating agency. The Authority does not have a formal investment policy, which would limit its investment choices, based on the credit ratings by nationally recognized statistical rating organizations.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover investments, which are in the possession of an outside entity. At December 31, 2019 and 2018, the Authority's investments had no exposure to custodial credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, which is identified when the fair value of an investment, by one issuer, represents 5.0 percent of more of the fair value of the investment portfolio. At December 31, 2019 and 2018, the Authority's investments had no exposure to concentration of credit risk. The Authority does not have a formal investment policy, which limits the amount it may invest with any one issuer.

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment in debt securities. The Authority does not have a formal investment policy, which limits investment maturities as a means of exposure to the fair value losses arising from increasing interest rates. All investments of the Authority mature in less than one year.

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The Pennsylvania Local Government Investment Trust (PLGIT) is a common law trust organized to provide Pennsylvania local governments with a convenient method of pooling their cash for temporary investment. PLGIT functions similar to a money market fund, seeking to maintain a net asset value of \$1 per share. Participants purchase "shares" in PLGIT, which invests the proceeds in: obligations of the United States Government, its agencies or instrumentalities; obligations of the Commonwealth of Pennsylvania, its agencies, instrumentalities, or political subdivisions; and deposits in savings accounts, time deposits, or share accounts of institutions insured by FDIC to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository. Shares may be withdrawn at any time. PLGIT/PLGIT PLUS have received an AAAM rating from Standard & Poor's. At December 31, 2019 and 2018, the carrying amount and bank balance of the Authority's deposits with PLGIT was \$253,930 and \$3,511, respectively. Due to the short-term nature and liquidity of the investments held within the pool, the fair value of the underlying investments approximates amortized cost.

3. Capital Assets

The following is a summary of the Authority's capital assets activity for the years ended December 31:

	2019			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Dispositions</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Construction-in-progress	\$ 863,704	\$ 1,678,320	\$ (2,535,708)	\$ 6,316
Land and right-of-ways	380,061	-	-	380,061
Total capital assets not depreciated	<u>1,243,765</u>	<u>1,678,320</u>	<u>(2,535,708)</u>	<u>386,377</u>
Capital assets depreciated:				
Dam and reservoirs	17,437,526	21,100	(718)	17,457,908
Water treatment plant	11,340,505	56,971	1,942,166	13,339,642
Distribution system	30,483,866	502,616	369,782	31,356,264
Office building	210,074	-	-	210,074
Equipment	1,224,276	90,137	(55,045)	1,259,368
Total capital assets depreciated	<u>60,696,247</u>	<u>670,824</u>	<u>2,256,185</u>	<u>63,623,256</u>
Less accumulated depreciation for:				
Dam and reservoirs	(4,795,611)	(342,446)	718	(5,137,339)
Water treatment plant	(5,660,503)	(314,885)	7,031	(5,968,357)
Distribution system	(13,627,574)	(708,860)	216,448	(14,119,986)
Office building	(98,337)	(9,872)	-	(108,209)
Equipment	(732,952)	(95,169)	55,045	(773,076)
Total accumulated depreciation	<u>(24,914,977)</u>	<u>(1,471,232)</u>	<u>279,242</u>	<u>(26,106,967)</u>
Total	<u>\$ 37,025,035</u>	<u>\$ 877,912</u>	<u>\$ (281)</u>	<u>\$ 37,902,666</u>

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	2018			
	Beginning Balance	Additions	Transfers/ Dispositions	Ending Balance
Capital assets not depreciated:				
Construction-in-progress	\$ 856,162	\$ 1,117,020	\$ (1,109,478)	\$ 863,704
Land and right-of-ways	380,061	-	-	380,061
Total capital assets not depreciated	1,236,223	1,117,020	(1,109,478)	1,243,765
Capital assets depreciated:				
Dam and reservoirs	16,391,805	47,009	998,712	17,437,526
Water treatment plant	11,336,061	4,444	-	11,340,505
Distribution system	30,328,432	95,872	59,562	30,483,866
Office building	204,079	5,995	-	210,074
Equipment	1,253,437	182,881	(212,042)	1,224,276
Total capital assets depreciated	59,513,814	336,201	846,232	60,696,247
Less accumulated depreciation for:				
Dam and reservoirs	(4,470,183)	(325,428)	-	(4,795,611)
Water treatment plant	(5,330,836)	(329,667)	-	(5,660,503)
Distribution system	(12,942,202)	(736,575)	51,203	(13,627,574)
Office building	(88,596)	(9,741)	-	(98,337)
Equipment	(855,581)	(89,414)	212,043	(732,952)
Total accumulated depreciation	(23,687,398)	(1,490,825)	263,246	(24,914,977)
Total	\$ 37,062,639	\$ (37,604)	\$ -	\$ 37,025,035

Depreciation for the years ended December 31, 2019 and 2018 was \$1,471,232 and \$1,490,825, respectively.

The Municipal Authority of the Borough of Lewistown

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4. Water Revenue Bonds

Water Revenue Bonds consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Water Revenue Bonds:		
a. Water Revenue Bonds, Series of 2014	\$ 3,525,000	\$ 3,780,000
b. Water Revenue Bonds, Series A of 2015	12,415,000	13,540,000
Water Revenue Bond from direct borrowing:		
c. Water Revenue Bond, Series of 2015 (PennVest 2015 Bond)	<u>1,862,607</u>	<u>1,961,570</u>
Total	17,802,607	19,281,570
Less current portion	(1,514,957)	(1,478,963)
Less unamortized bonds discount	<u>(40,483)</u>	<u>(47,265)</u>
Total Water Revenue Bonds	<u>\$ 16,247,167</u>	<u>\$ 17,755,342</u>

- a. On October 16, 2014, the Authority issued \$4,300,000 of Water Revenue Bonds, Series of 2014 (2014 Bonds). The 2014 Bonds were issued to provide funds to (1) effect a current refunding of the remaining balance of all of the Authority's Water Revenue Bonds, Series of 2007 in the outstanding principal amount of \$4,045,000, plus accrued interest and (2) pay costs of issuance of the 2014 Bonds. The 2014 Bonds mature at various times through 2029 and bear interest rates from 0.75 percent to 2.875 percent.
- b. On October 16, 2015, the Authority issued \$15,975,000 of Water Revenue Bonds, Series A of 2015 (2015A Bonds). The 2015A Bonds were issued to provide funds to (1) effect a current refunding of the remaining balance of all of the Authority's Water Revenue Bonds, Series of 2010 in the outstanding principal amount of \$15,450,000, plus accrued interest and (2) pay costs of issuance of the 2015A Bonds. The 2015A Bonds mature at various times through 2028 and bear interest rate of 2.238 percent.
- c. On June 18, 2015, the Authority issued \$4,000,000 of Water Revenue Bond, Series of 2015 (PennVest 2015 Bond). The PennVest 2015 Bond was issued to finance the costs of construction projects of the Authority. The PennVest 2015 Bond matures during 2036 and bear an interest rate of 1.00 percent.

Through its trust indenture, the Authority has pledged all of its water revenue as security to the Water Revenue Bonds. The Authority's outstanding water revenue bonds and water revenue bond from direct borrowing related to business-type activity contain a provision that in an event of default, the Authority shall transfer its water revenue and all moneys and investments held with trustee to the trustee, and, until such event of default is cured in full, the water revenue shall be maintained with the trustee and disbursements shall be made in accordance with the indenture.

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The following is a summary of Authority's Bonds activity for the years ended December 31:

	<u>2014 Bonds</u>	<u>2015A Bonds</u>	<u>2015 Bond</u>	<u>Total</u>
Balance, January 1, 2018	\$ 4,025,000	\$ 14,640,000	\$ 2,059,549	\$ 20,724,549
Retirements	(245,000)	(1,100,000)	(97,979)	(1,442,979)
Bonds issuance	-	-	-	-
Balance, December 31, 2018	3,780,000	13,540,000	1,961,570	19,281,570
Retirements	(255,000)	(1,125,000)	(98,963)	(1,478,963)
Bonds issuance	-	-	-	-
Balance, December 31, 2019	<u>\$ 3,525,000</u>	<u>\$ 12,415,000</u>	<u>\$ 1,862,607</u>	<u>\$ 17,802,607</u>

Investment income from the investment of tax-exempt bonds' proceeds is offset against interest expense. Net interest expense on the bonds was \$377,818 and \$393,857 for the years ended December 31, 2019 and 2018, respectively.

Debt service requirements for the Water Revenue Bonds are as follows at December 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 1,415,000	\$ 349,255	\$ 1,764,255
2021	1,440,000	317,920	1,757,920
2022	1,470,000	285,982	1,755,982
2023	1,500,000	253,218	1,753,218
2024	1,535,000	219,396	1,754,396
2025-2029	8,580,000	518,051	9,098,051
Total	<u>\$ 15,940,000</u>	<u>\$ 1,943,822</u>	<u>\$ 17,883,822</u>

Debt service requirements for the Water Revenue Bond from direct borrowing are as follows at December 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 99,957	\$ 18,169	\$ 118,126
2021	100,284	20,284	120,568
2022	99,711	28,181	127,892
2023	101,463	26,429	127,892
2024	103,245	24,646	127,891
2025-2029	544,083	95,375	639,458
2030-2034	593,590	45,870	639,460
2035-2036	220,274	3,537	223,811
Total	<u>\$ 1,862,607</u>	<u>\$ 262,491</u>	<u>\$ 2,125,098</u>

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5. Reconciliation of Statements of Revenue, Expenses and Changes in Net Position - Accrual Basis to Cash Basis

The change in net position as presented on the statements of revenue, expenses and changes in net position on page 9 differs from the statement of revenue, expenses and changes in net position - budget to actual - budgetary basis on page 31 for the reason that in the current year, the budget for the Authority was prepared on the cash basis of accounting.

Reconciliation of the change in net position is as follows:

Net cash and investments used, budgetary basis	\$	(542,804)
Add:		
Acquisition and construction of capital assets		1,955,479
Principal paid on Water Revenue Bonds		1,478,963
Net decrease in current assets		91,774
Noncash capital contributions		416,585
Net decrease in accrued interest		15,138
Less:		
Change in net pension liability (asset) (net of related deferred inflows/outflows of resources)		(40,935)
Net decrease in current liabilities		(18,767)
Depreciation		(1,471,232)
Deferred interest expense on bond obligations		(121,103)
Loss on disposal of assets		(281)
Change in net position	\$	<u>1,762,817</u>

6. Pension

General Information About the Pension Plan

The Authority has a single-employer defined benefit pension plan. All permanent, full-time employees, who have one year of service (defined as 1,000 hours of service) may participate in the Plan. The Municipal Pension Plan Funding and Recovery Act (Act 205) requires a full actuarial valuation once every two years. Based on the most recent biennial actuarial valuation, there were 22 active employees, four vested, former employees eligible for future benefits and 14 retired employees currently receiving benefits covered by the plan. Benefits vest 20.0 percent after two years of service, plus 20.0 percent each year, thereafter, up to 100.0 percent of service. The Plan provides pension benefits for normal retirement, at age 65, based on a formula, including service factors and employees average compensation. Early retirement, at age 55, is available upon ten years of service. The Authority's employees, who terminate after ten years of credited service, will receive a deferred pension commencing at retirement age. The Plan also provides for death benefits. A minimum funding standard exists for the Plan, based on the current actuarial valuation report. Any obligation, with respect to the Plan, shall be paid by the Authority. Active members of the Plan are required to contribute 2.0 percent of their compensation.

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At December 31, the following employees were covered by the benefit terms:

	<u>2019</u>	<u>2018</u>
Active employees	22	23
Inactive employees entitled to, but not yet receiving benefits	4	4
Inactive employees or beneficiaries currently receiving benefits	<u>14</u>	<u>13</u>
Total	<u>40</u>	<u>40</u>

Net Pension Liability

The Authority's net pension liability was measured at December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2019.

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	4.50 percent (average, including inflation)
Investment rate of return	7.00 percent (including inflation)
Postretirement cost of living increase	0.00 percent

Mortality rates were based on the PubG-2010 mortality table, including rates for disabled retirees and contingent survivors. Incorporated into the table are rates projected generationally using Scale MP-2018 to reflect mortality improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	58.00 %	5.50% - 7.50%
International equity	6.00 %	4.50% - 6.50%
Fixed income	33.00 %	1.00% - 3.00%
Real estate	3.00 %	4.50% - 6.50%

The discount rate used to measure the total pension liability was 7.00 percent. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability/asset. The Authority has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost, plus plan expenses, as well as amortization of the unfunded liability.

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Notes to Financial Statements
December 31, 2019 and 2018

Changes in the net pension liability for the years ended December 31, 2019 and 2018 were as follows:

	2019		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (Asset) (a) - (b)
Balances, December 31, 2018	\$ 3,162,971	\$ 2,797,733	\$ 365,238
Service cost	68,428	-	68,428
Interest cost	227,471	-	227,471
Changes for experience	(93,184)	-	(93,184)
Changes of assumptions	175,263	-	175,263
Contributions, employer	-	106,108	(106,108)
Contributions, member	-	25,012	(25,012)
Net investment income	-	512,103	(512,103)
Benefit payments, including refunds of member contributions	(127,771)	(127,771)	-
Net changes	250,207	515,452	(265,245)
Balances, December 31, 2019	<u>\$ 3,413,178</u>	<u>\$ 3,313,185</u>	<u>\$ 99,993</u>
	2018		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (Asset) (a) - (b)
Balances, December 31, 2017	\$ 3,015,206	\$ 2,987,501	\$ 27,705
Service cost	64,433	-	64,433
Interest cost	211,103	-	211,103
Contributions, employer	-	105,120	(105,120)
Contributions, member	-	24,004	(24,004)
Net investment income	-	(191,121)	191,121
Benefit payments, including refunds of member contributions	(127,771)	(127,771)	-
Net changes	147,765	(189,768)	337,533
Balances, December 31, 2018	<u>\$ 3,162,971</u>	<u>\$ 2,797,733</u>	<u>\$ 365,238</u>

The Municipal Authority of the Borough of Lewistown

Notes to Financial Statements
December 31, 2019 and 2018

The following presents the net pension liability of the plan, calculated using the discount rate of 7.00 percent, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	2019		
	1.0% Decrease (6.0%)	Current Discount Rate (7.0%)	1.0% Increase (8.0%)
Plan's net pension liability (asset)	\$ 524,931	\$ 99,993	\$ (259,031)

	2018		
	1.0% Decrease (6.0%)	Current Discount Rate (7.0%)	1.0% Increase (8.0%)
Plan's net pension liability (asset)	\$ 740,558	\$ 365,238	\$ 44,551

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension

For the years ended December 31, 2019 and 2018, the Authority recognized pension expense of \$147,043 and \$168,586, respectively. At December 31, the Authority reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 71,109	\$ 119,795
Changes of assumptions	397,909	-
Net difference between projected and actual investment earnings	240,175	330,029
Total	<u>\$ 709,193</u>	<u>\$ 449,824</u>

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 82,960	\$ 49,287
Changes of assumptions	282,474	-
Net difference between projected and actual investment earnings	369,933	120,531
Total	<u>\$ 735,367</u>	<u>\$ 169,818</u>

The Municipal Authority of the Borough of Lewistown

Notes to Financial Statements

December 31, 2019 and 2018

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows for the years ending December 31:

2020	\$	22,416
2021		32,135
2022		65,833
2023		(1,903)
2024		61,325
Thereafter		<u>79,563</u>
Total	\$	<u>259,369</u>

7. Federal and State Grants

In the normal course of operations, the Authority receives grant funds from various federal and state agencies. The grant programs are subject to audits by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement that may arise, as the result of these audits, is not believed to be material.

8. Risk Management

Effective January 1, 2017, the Authority elected to participate in the Delaware Valley Health Trust (Trust), an intergovernmental risk-sharing pool that provides comprehensive health benefits on a pooled basis, for a minimum of four years. The Trust is funded by its members through premium contributions. Rate-setting policies are established by the Trust in consultation with independent insurance and employee benefit consultants. The Trust may distribute returns of surplus to members in the form of rate stabilization fund credits. The Authority believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The cost of medical coverage for employees was approximately \$309,000 and \$282,000 in 2019 and 2018, respectively.

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of asset, errors and omissions and natural disasters for which the Authority carries commercial insurance.

9. Contingency

In December 2019, the Borough Council passed a resolution to limit the statutory powers of the Authority and signify the Borough's intention to acquire all of the water facility assets of the Authority. In January 2020, the Authority commenced a declaratory judgement action against the Borough in response to the December resolution. In May 2020, the common pleas court denied the Borough's attempts to have this matter dismissed as moot, granted the Authority temporary injunctive relief from the Borough's December resolution pending on the outcome of the merits of the case, and also granted the petition of the Pennsylvania Municipal Authorities Association to intervene in the case as a party to the action. The Borough has filed an appeal from the common pleas court's issuance of an injunction. The appeal is scheduled for argument before the Commonwealth Court of Pennsylvania in September 2020.

The Municipal Authority of the Borough of Lewistown

Notes to Financial Statements
December 31, 2019 and 2018

10. Subsequent Events

Management of the Authority has evaluated subsequent events through May 29, 2020, which is the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. The Authority's evaluation of the effects of these events is ongoing as of the date the accompanying financial statements were available to be issued. COVID-19 may impact various parts of the Authority's 2020 operations and financial performance, including its customers' ability to pay user charges. The extent of the impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

11. Pending Changes in Accounting Principles

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 84, *Fiduciary Activities*
- Statement No. 87, *Leases*
- Statement No. 90, *Major Equity Interest - an amendment of GASB Statements No. 14 and No. 61*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Authority management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the financial reporting process.

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

To the Board of Directors of
The Municipal Authority of the Borough of Lewistown

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Municipal Authority of the Borough of Lewistown (the Authority) 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 on the table of contents, and have issued our report thereon, dated May 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
May 29, 2020

The Municipal Authority of the Borough of Lewistown

Schedules to Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
General		
Auditing and consulting	\$ 32,000	\$ 31,168
Employee benefits	225,682	190,247
Employee insurance	390,000	361,086
Engineering	43,531	57,544
General property expense	148,517	134,191
Insurance	52,643	54,149
Legal	37,084	13,814
Office expense	171,461	172,033
Payroll taxes	107,390	103,757
Pension	147,043	168,586
Salaries	388,027	393,747
Salaries, officers	10,100	10,301
Security	2,927	6,912
Uncollectible accounts	13,715	-
	<u>1,770,120</u>	<u>1,697,535</u>
Total general	<u>\$ 1,770,120</u>	<u>\$ 1,697,535</u>
Filter Plant		
Labor	\$ 282,408	\$ 264,829
Supplies	16,189	14,091
Power and heat	36,665	40,560
Maintenance	59,713	43,661
	<u>394,975</u>	<u>363,141</u>
Total filter plant	<u>\$ 394,975</u>	<u>\$ 363,141</u>

The Municipal Authority of the Borough of Lewistown

Schedules to Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Purification		
Labor	\$ 9,737	\$ 10,020
Supplies	5,607	4,804
Regulatory monitoring	62,490	24,458
Chemicals	106,380	117,025
Maintenance	3,360	3,040
	<u>187,574</u>	<u>159,347</u>
Total purification	<u>\$ 187,574</u>	<u>\$ 159,347</u>
Distribution		
Labor	\$ 217,201	\$ 287,460
Supplies	23,458	22,546
Maintenance:		
Mains	43,459	44,497
Service lines	18,803	16,024
Reservoirs	52,774	51,691
Meters	6,127	35,761
Hydrants	29	3,954
	<u>361,851</u>	<u>461,933</u>
Total distribution	<u>\$ 361,851</u>	<u>\$ 461,933</u>
Control Station		
Labor	\$ 13,257	\$ 16,384
Supplies	14,572	16,098
Power	9,324	10,053
Maintenance	8,661	1,989
	<u>45,814</u>	<u>44,524</u>
Total control station	<u>\$ 45,814</u>	<u>\$ 44,524</u>
Water Collection		
Labor	\$ 158	\$ -
Power	10,251	19,814
Maintenance	890	492
	<u>11,299</u>	<u>20,306</u>
Total water collection	<u>\$ 11,299</u>	<u>\$ 20,306</u>

The Municipal Authority of the Borough of Lewistown

Schedule of Revenue, Expenses and Changes in Net Position - Budget to Actual - Budgetary Basis
Year Ended December 31, 2019

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Over (Under) Budget</u>
Operating Revenue			
Metered revenue:			
Domestic	\$ 3,574,239	\$ 3,648,839	\$ (74,600)
Commercial	1,044,563	1,039,056	5,507
Industrial	450,320	410,111	40,209
Public	254,896	256,662	(1,766)
Fire protection	130,456	113,845	16,611
Capital component collections	141,244	140,580	664
	<u>5,595,718</u>	<u>5,609,093</u>	<u>(13,375)</u>
Total metered revenue			
Unmetered Revenue	<u>212,765</u>	<u>174,500</u>	<u>38,265</u>
Total operating revenue	<u>5,808,483</u>	<u>5,783,593</u>	<u>24,890</u>
Operating Expenses			
General	1,715,794	1,829,462	(113,668)
Filter plant	394,975	465,000	(70,025)
Purification	187,574	172,000	15,574
Distribution	361,851	416,000	(54,149)
Control stations	45,814	43,800	2,014
Water collection	11,299	51,200	(39,901)
Timber management	-	2,500	(2,500)
Net customer deposits paid	1,542	-	1,542
	<u>2,718,849</u>	<u>2,979,962</u>	<u>(261,113)</u>
Total operating expenses			
Operating income	<u>3,089,634</u>	<u>2,803,631</u>	<u>286,003</u>
Nonoperating Revenue (Expenses)			
Interest income	73,857	37,000	36,857
Investment income	127,234	160,000	(32,766)
Principal paid on long-term debt and revenue bonds	(1,478,963)	(1,513,963)	35,000
Interest paid on debt service	(399,087)	(383,948)	(15,139)
	<u>(1,676,959)</u>	<u>(1,700,911)</u>	<u>23,952</u>
Total nonoperating revenue (expenses)			
Net income before capital expenditures	1,412,675	1,102,720	309,955
Capital Expenditures			
Capital expenditures	<u>(1,955,479)</u>	<u>(2,485,466)</u>	<u>(529,987)</u>
Net cash and investments used	<u>\$ (542,804)</u>	<u>\$ (1,382,746)</u>	<u>\$ 839,942</u>

The Municipal Authority of the Borough of Lewistown

Schedule of Changes in the Authority's Net Pension Liability (Asset) and Related Ratios
Last Ten Fiscal Years*
(Unaudited)

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 68,428	\$ 64,433	\$ 61,658	\$ 61,039	\$ 57,857	\$ 44,059
Interest cost	227,471	211,103	201,674	183,510	173,434	170,255
Changes of benefit terms	-	-	-	-	-	-
Changes for experience	(93,184)	-	106,662	-	(98,575)	-
Differences between expected and actual experience:						
Changes for assumptions	175,263	-	363,182	-	-	-
Benefit payments, including refunds of member contributions	(127,771)	(127,771)	(135,056)	(120,599)	(96,435)	(83,186)
Net change in total pension liability	250,207	147,765	598,120	123,950	36,281	131,128
Total Pension Liability, Beginning	3,162,971	3,015,206	2,417,086	2,293,136	2,256,855	2,125,727
Total Pension Liability, Ending (a)	3,413,178	3,162,971	3,015,206	2,417,086	2,293,136	2,256,855
Plan Fiduciary Net Position						
Contributions, employer	106,108	105,120	45,143	44,110	45,328	70,195
Contributions, member	25,012	24,004	23,454	23,796	23,969	21,308
Net investment income	512,103	(191,121)	355,083	246,865	(43,773)	129,176
Benefit payments, including refunds of member contributions	(127,771)	(127,771)	(135,056)	(120,599)	(96,435)	(83,186)
Administrative expenses	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Net change in plan fiduciary net position	515,452	(189,768)	288,624	194,172	(70,911)	137,493
Plan Fiduciary Net Position, Beginning	2,797,733	2,987,501	2,698,877	2,504,705	2,575,616	2,438,123
Plan Fiduciary Net Position, Ending (b)	3,313,185	2,797,733	2,987,501	2,698,877	2,504,705	2,575,616
Authority's net pension liability (asset), ending (a) - (b)	\$ 99,993	\$ 365,238	\$ 27,705	\$ (281,791)	\$ (211,569)	\$ (318,761)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.07%	88.45%	99.08%	111.66%	109.23%	114.12%
Covered-Employee Payroll	\$ 1,227,533	\$ 1,249,210	\$ 1,165,411	\$ 1,176,493	\$ 1,185,907	\$ 1,112,000
Authority's Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	8.15%	29.24%	2.38%	(23.95)%	(17.84)%	(28.67)%

Note to Schedule

* This schedule is required to show information for ten years, however, until a full ten-year trend is compiled, the Authority will present those years for which information is available.

The Municipal Authority of the Borough of Lewistown

Schedule of Authority's Contributions
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year	Actuarially Determined Contribution	Contributions From Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Payroll
2019	\$ 58,108	\$ 106,108	\$ (48,000)	\$ 1,227,533	8.64 %
2018	57,120	105,120	(48,000)	1,249,210	8.41 %
2017	-	45,143	(45,143)	1,165,411	3.87 %
2016	-	44,110	(44,110)	1,176,493	3.75 %
2015	33,328	45,328	(12,000)	1,185,907	3.82 %
2014	22,195	70,195	(48,000)	1,112,000	6.31 %
2013	93,389	99,388	(5,999)	856,258	11.61 %
2012	92,759	242,759	(150,000)	N/A	N/A
2011	109,761	315,761	(206,000)	780,044	40.48 %
2010	68,742	74,742	(6,000)	N/A	N/A

Notes to Schedule

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	16 years
Actuarial asset valuation method	Market value as determined by trustee
Inflation	3.00 percent
Salary increases	4.50 percent
Investment rate of return	7.00 percent
Retirement age	Normal retirement age
Mortality	2017 IRS Small Plan Combined Static Table. This table does not include projected mortality improvements.

Change in benefit terms: None since 1/1/2017