

HERMITAGE MUNICIPAL AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

HERMITAGE MUNICIPAL AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hermitage Municipal Authority
Hermitage, Pennsylvania

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of the business-type activities of Hermitage Municipal Authority, a component unit of the City of Hermitage, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Hermitage Municipal Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities Hermitage Municipal Authority as of December 31, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Hermitage Municipal 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 Matter

As discussed in Note "1", the financial statements present only the Hermitage Municipal Authority, a component unit of the City of Hermitage and do not purport to, and do not, present fairly the financial position of the City of Hermitage, Pennsylvania, as of December 31, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the years 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.

Responsibilities of Management for the Financial Statements

Hermitage Municipal Authority 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 Hermitage Municipal Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statement

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 GAAS 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 GAAS, 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 Hermitage Municipal 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 Hermitage Municipal 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.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Black, Bashor & Porsch, LLP

Sharon, Pennsylvania
March 23, 2022

HERMITAGE MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION

DECEMBER 31, 2021 AND 2020

<u>A S S E T S</u>	<u>2021</u>	<u>2020</u>	<u>L I A B I L I T I E S A N D N E T P O S I T I O N</u>	<u>2021</u>	<u>2020</u>
<u>CURRENT ASSETS:-</u>			<u>CURRENT LIABILITIES:-</u>		
Cash and Cash Equivalents	\$ 1,847,398	\$ 1,994,548	Accounts Payable	\$ 123,373	\$ 143,237
Accounts Receivable - Related Party	195,440	62,820	Accrued Interest Payable	427,699	387,514
Supplies	101,210	233,830	Bonds Payable, Net of Discount or Premium	1,779,559	1,688,171
Prepaid - Bond Insurance	4,036	6,107	Note Payable	675,965	668,835
	<u>2,148,084</u>	<u>2,297,305</u>	Unearned Revenue	22,096	12,500
<u>TOTAL CURRENT ASSETS:-</u>			<u>TOTAL CURRENT LIABILITIES:-</u>	<u>3,028,692</u>	<u>2,900,257</u>
<u>CAPITAL ASSETS:-</u>			<u>NON-CURRENT LIABILITIES:-</u>		
Buildings	2,346,517	1,021,702	Bonds Payable, Net of Discount or Premium	29,526,000	29,407,633
Furniture, Fixtures, and Equipment	3,144,088	2,299,335	Note Payable	7,484,514	8,160,479
Sewer System	74,042,356	73,731,498	Reserve for Delayed Assessment Receivable	595,118	595,118
	<u>79,532,961</u>	<u>77,052,535</u>	<u>TOTAL NON-CURRENT LIABILITIES:-</u>	<u>37,605,632</u>	<u>38,163,230</u>
<u>LESS: Accumulated Depreciation</u>	<u>(29,958,545)</u>	<u>(27,899,017)</u>	<u>TOTAL LIABILITIES:-</u>	<u>40,634,324</u>	<u>41,063,487</u>
	49,574,416	49,153,518	<u>DEFERRED INFLOW OF RESOURCES:-</u>		
Land	64,000	64,000	Deferred Amount on Refunding	36,884	62,871
Construction-in-Progress	110,428	563,304			
	<u>49,748,844</u>	<u>49,780,822</u>	<u>NET POSITION:-</u>		
<u>NET CAPITAL ASSETS:-</u>			Net Investment in Capital Assets	12,686,696	12,392,800
<u>OTHER ASSETS:-</u>			Restricted - For Debt Service	78,717	77,692
Delayed Assessments Receivable	643,067	649,642	Unrestricted	(134,132)	(104,835)
Prepaid - Bond Insurance	52,522	62,360	<u>TOTAL NET POSITION:-</u>	<u>12,631,281</u>	<u>12,365,657</u>
	<u>695,589</u>	<u>712,002</u>			
<u>TOTAL OTHER ASSETS:-</u>			<u>TOTAL LIABILITIES AND NET POSITION:-</u>	<u>\$ 53,302,489</u>	<u>\$ 53,492,015</u>
<u>TOTAL ASSETS:-</u>	<u>52,592,517</u>	<u>52,790,129</u>			
<u>DEFERRED OUTFLOW OF RESOURCES:-</u>					
Deferred Amount on Refunding	709,972	701,886			
	<u>\$ 53,302,489</u>	<u>\$ 53,492,015</u>			

The Accompanying Notes are an Integral Part of These Statements

HERMITAGE MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>OPERATING REVENUES:-</u>		
Lease Revenue	\$ 3,260,207	\$ 3,064,443
Other Revenue	21,305	26,525
	<u>3,281,512</u>	<u>3,090,968</u>
<u>OPERATING EXPENSES:-</u>		
Engineering	64,440	28,405
Legal	14,142	15,000
Consulting	18,787	18,328
Trustee and Financing	6,465	12,336
Auditing	16,950	12,590
Miscellaneous	1,053	6,283
License and Permits	7,000	-
Legal Advertising	-	249
Depreciation	2,059,528	2,038,232
	<u>2,188,365</u>	<u>2,131,423</u>
<u>NET OPERATING INCOME:-</u>	<u>1,093,147</u>	<u>959,545</u>
<u>NON-OPERATING REVENUES (EXPENSES):-</u>		
Bond Issuance Costs	(134,205)	(285,885)
Interest Income	2,471	3,156
Interest Expense	(893,223)	(968,672)
	<u>(1,024,957)</u>	<u>(1,251,401)</u>
<u>CHANGES IN NET POSITION BEFORE CAPITAL CONTRIBUTION:-</u>	68,190	(291,856)
<u>CAPITAL CONTRIBUTION</u>	<u>197,434</u>	<u>-</u>
<u>CHANGES IN NET POSITION:-</u>	265,624	(291,856)
<u>NET POSITION - BEGINNING OF YEAR:-</u>	<u>12,365,657</u>	<u>12,657,513</u>
<u>NET POSITION - END OF YEAR:-</u>	<u>\$ 12,631,281</u>	<u>\$ 12,365,657</u>

The Accompanying Notes are an Integral Part of These Statements

STATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>CASH PROVIDED BY OPERATING ACTIVITIES:-</u>		
Cash Received from Customers	\$ 3,260,207	\$ 3,064,443
Other Income Received	37,476	16,525
Cash Paid for Operating Expenses	<u>(148,701)</u>	<u>(121,674)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES:-</u>	<u>3,148,982</u>	<u>2,959,294</u>
<u>CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:-</u>		
Capital Contribution - Grant	197,434	-
Interest Paid on Bonds and Notes Payable	(1,045,246)	(929,617)
Proceeds from Issuance of Bonds	10,795,058	22,285,805
Payment of Principal on Bonds	(10,390,000)	(19,435,000)
Payment of Principal on Note Payable	(668,835)	(661,778)
Repayment to (Advance from) Related Party	-	(195,000)
Prepaid Bond	(25,259)	(36,747)
Purchase of Capital Assets	(2,007,954)	(1,563,919)
Accounts Receivable - Related Party	(152,216)	(62,820)
Supplies	132,620	(233,830)
Payment of Bond Issuance Costs	<u>(134,205)</u>	<u>(285,885)</u>
<u>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:-</u>	<u>(3,298,603)</u>	<u>(1,118,791)</u>
<u>CASH FLOWS (USED BY) PROVIDED FROM INVESTING ACTIVITIES:-</u>		
Interest Income	<u>2,471</u>	<u>3,156</u>
<u>NET CASH PROVIDED BY INVESTING ACTIVITIES:-</u>	<u>2,471</u>	<u>3,156</u>
<u>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS:-</u>	(147,150)	1,843,659
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR:-</u>	<u>1,994,548</u>	<u>150,889</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR:-</u>	<u>\$ 1,847,398</u>	<u>\$ 1,994,548</u>

The Accompanying Notes are an Integral Part of These Statements

STATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:-</u>		
Net Operating Income	\$ 1,093,147	\$ 959,545
<u>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities -</u>		
Depreciation	2,059,528	2,038,232
<u>Change in Assets and Liabilities -</u>		
Decrease in Delayed Assessments	6,575	-
Decrease in Accounts Payable	(19,864)	(28,483)
Increase (Decrease) in Unearned Revenue	9,596	(10,000)
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES:-</u>	<u>\$ 3,148,982</u>	<u>\$ 2,959,294</u>
<u>NON-CASH TRANSACTIONS:-</u>		
<u>Non-cash Adjustments to Interest -</u>		
Amortization of Original Issuance Discount	\$ (3,574)	\$ (31,113)
Amortization of Original Issuance Premium	256,419	87,002
Amortization of Prepaid Bond Insurance	(4,381)	(4,953)
Amortization of Deferred Amount on Refunding	(56,256)	(43,049)
<u>TOTAL NON-CASH ADJUSTMENTS TO INTEREST:-</u>	<u>\$ 192,208</u>	<u>\$ 7,887</u>
<u>NON-CASH ADJUSTMENTS TO BONDS PAYABLE:-</u>		
Amortization of Original Issuance Discount	\$ (3,574)	\$ (31,113)
Amortization of Original Issuance Premium	256,419	87,002
<u>TOTAL NON-CASH ADJUSTMENTS TO BONDS PAYABLE:-</u>	<u>\$ 252,845</u>	<u>\$ 55,889</u>

The Accompanying Notes are an Integral Part of These Statements

HERMITAGE MUNICIPAL AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

1. NATURE OF ORGANIZATION AND OPERATIONS

Hermitage Municipal Authority (Authority) was incorporated under the Provisions of the Pennsylvania Municipal Authorities Act of 1945, Public Law 382. The Authority is a local governmental unit established for the purpose of constructing and maintaining a wastewater treatment system in the City of Hermitage, Pennsylvania (City). The Authority is a component unit of the City. Although it is legally separate from the City, the Authority is reported in the City's financial statements as if it were part of the City because its purpose is to finance, construct, and maintain the sewer system operated by the City. The financial statements as presented herein represent only the activity applicable to the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the net position, changes in net position, and cash flows of the Authority. The accompanying financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

REPORTING ENTITY

GASB Statement No. 14, The Financial Reporting Entity, established the criteria for determining the activities, organizations, and functions of government to be included in a financial reporting entity. The criteria used are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service, and special financing relationships.

The Authority has evaluated its relationships with other entities to determine if the financial information of those entities should be included in the financial statements. Based on this evaluation, no other entities have been included as a component unit of the Authority's reporting entity because of oversight responsibility and limited accountability for fiscal matters.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Measurement focus is a term used to describe "how" transactions are recorded within the financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The Authority utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, net position, and cash flows. All assets, deferred outflows of resources, liabilities, deferred inflow of resources and net position (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported.

Basis of Accounting

The accrual basis of accounting is followed whereby revenues are recognized in the period in which the revenues are earned, and expenses are recognized in the period incurred, regardless of the timing of related cash flows.

HERMITAGE MUNICIPAL AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Basis of Presentation

For financial reporting purposes, the Authority reports its operations on an enterprise fund basis. The Authority functions as a business-type activity, as defined by GASB.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and money market mutual fund accounts. For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with an initial maturity of three (3) months or less, to be cash equivalents.

The Federal Deposit Insurance Corporation (FDIC) insures all deposit accounts, including checking and savings accounts, money market deposit accounts, and certificates of deposit. The standard insurance amount is \$ 250,000 per depositor, per insured bank, per ownership category. In the normal course of business, the Authority may have deposits in excess of federal insured coverage. As of December 31, 2021, the Authority did not have any deposit accounts in excess of FDIC insured limits.

CAPITAL ASSETS

Capital assets are reported at cost. The Authority defines capital assets as assets with an initial, individual, or group cost of more than \$ 5,000 and an estimated useful life in excess of one (1) year. Donated capital assets are recorded at estimated fair value at the date of donation. Depreciation is provided on a straight-line basis in amounts sufficient to amortize the cost of the assets, less an estimated salvage value, over the estimated useful life of the asset once the assets are placed into use.

The estimated useful lives of the various classes of depreciable assets are as follows:

<u>ASSET CLASS</u>	<u>YEARS</u>
Buildings	40
Furniture, Fixtures, and Equipment	5 - 15
Vehicles	4 - 10
Sewer System	20 - 40

Maintenance and repairs are charged to expense as incurred. Expenses which extend the useful life of the assets or improve their efficiency are capitalized. Retirements and other disposals of assets are removed from the accounts at their carrying values. Gain or loss resulting from disposition or sale of assets are reflected in the change in net position in the year of disposal or sale.

DELAYED ASSESSMENTS RECEIVABLE

Delayed assessments receivable represent front footage of either vacant land or of undeveloped lots in excess of 200 feet. For the Bobby Run, Sample Road, South Darby/Miller Road, and Overlook Drive Sewer Projects, these assessments are valued at \$ 18, \$ 25, \$ 27, and \$ 31 per front foot, respectively, and are delayed until the property is sold or vacant land is developed. At such time, the entire delayed assessment of the property becomes currently due.

HERMITAGE MUNICIPAL AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Consequently, the offset for these delayed assessments are reported as reserve for delayed assessments receivables within long-term liabilities in the accompanying statements of net position and will be recognized as property is sold or developed.

BOND DISCOUNTS, BOND PREMIUMS, AND BOND INSURANCE COSTS

Bond discounts, bond premiums, and bond insurance costs are deferred and amortized over the life of the related bonds using the straight-line method. The unamortized balances of the bond discount and bond premium are recorded as a reduction of the related bond payable. The unamortized balance of bond insurance costs is recorded as an asset. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses.

DEFERRED OUTFLOW OF RESOURCES AND DEFERRED INFLOW OF RESOURCES

In addition to assets, the statements of net position will sometime report a separate section for deferred outflow of resources. This represents the consumption of net position that applies to future periods and will not be recognized as an outflow of resources as an expense until that period. The Authority's deferred outflow of resources results from deferred gains on refunding. Deferred gains on refunding reported in the statements of net position results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Amortization of the deferred charge on refunding charged to interest expense amounted to \$ 82,240 and \$ 56,954, for the years ending December 31, 2021 and 2020, respectively.

In addition to liabilities, the statements of net position will sometime report a separate section for deferred inflow of resources. This represents the acquisition of net position that applies to future periods and will not be recognized as an inflow of resources as revenue until that period. The Authority's deferred inflow of resources results from deferred losses on refunding. Deferred losses on refunding reported in the statements of net position results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Amortization of the deferred credit on refunding credited to interest expense amounted to \$ 25,987 and \$ 15,089 for the years ended December 31, 2021 and 2020.

HERMITAGE MUNICIPAL AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NET POSITION

Net position represents the difference between all other elements in the statements of net position and should be displayed in three (3) components, as applicable:

- a. Net investment in capital assets - The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.
- b. Restricted - The restricted component of net position consists of net assets, reduced by liabilities and deferred inflows of resources related to those assets, with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation. Generally, a liability relates to restricted assets if the asset results from a resources flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- c. Unrestricted - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Authority's policy to first use the restricted net position prior to the use of the unrestricted net position when an expense is incurred for purposes for which both the restricted and unrestricted net position are available.

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts 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.

HERMITAGE MUNICIPAL AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Authority, these revenues are lease revenue for the rental of the sewer system. Operating expenses are necessary costs incurred to provide services that are the primary activity of the Authority. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

CAPITAL CONTRIBUTION

The Authority received a grant from the state of Pennsylvania to assist funding a new sewer line project during the year. The Authority recognizes grant revenue when earned (generally when the related capital expense is incurred). The grant is reported in the statement of revenues, expenses, and changes in net position after nonoperating revenues and expenses.

3. DEPOSITS AND INVESTMENTS

At December 31, 2021 and 2020, the Authority had the following deposits and investments presented as cash and cash equivalents in the statements of net position:

	<u>2021</u>	<u>2020</u>
Deposits	\$ 95,330	\$ 85,618
Investments	<u>1,752,068</u>	<u>1,908,930</u>
<u>TOTAL:-</u>	<u><u>1,847,398</u></u>	<u><u>1,994,548</u></u>

At December 31, 2021, the Authority's investments consisted of the following:

<u>INVESTMENT TYPE</u>	<u>MATURITIES</u>	<u>FAIR VALUE</u>
Governmental Mutual Fund	38 days average	<u>\$ 1,752,068</u>

Interest Rate Risk - The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits investments to:

- United States Treasury bills,
- Short-term obligations of the United States Government or its agencies or instrumentalities,
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured and for any amounts above the insured maximum if the approved collateral as provided by law shall be pledged by the depository;

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- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America;
- Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. § 80a-1 et seq.) whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. § 77a et seq.) if the only investments of that company are in the authorized investments for Authority funds as detailed above;
- Commercial paper, rated in the highest tier by a nationally recognized rating agency;
- Certificates of deposit and other evidence of deposits at financial institutions;
- Bankers' acceptances; and
- Insured bank deposit reciprocals

The Authority has no investment policy that would further limit its investment choices. As of December 31, 2021, the Authority's investment in the governmental mutual fund was rated AAAM by Standard & Poor's, AAA-mf by Moody's Investors Services and AAAMmf by Fitch.

For Authority funds deposited with a financial institution, P.L 281, No. 72 - Standardizing the Procedures for Pledges of Assets Act of August 6, 1971, requires that public funds of an authority be held by a banking institution authorized to hold deposits of public funds (depository). In addition, collateral is required for demand deposits and certificates of deposit, and at 100 percent of all amounts not covered by federal deposit insurance as required by Pennsylvania Pledge Act 72 (72 P.S. 3836-1 Et Seq of 1971). Obligations that may be pledged as collateral are obligations of the United States of America and its agencies.

Concentration of Credit Risk - The Authority places no limit on the amount the Authority may invest in any one issuer.

Custodial Credit Risk - Investments - The risk that in the event of failure, the government's deposits may not be returned to it. As of December 31, 2021, the Authority's investment was exposed to custodial credit risk.

The carrying amount of cash deposits is included within cash and cash equivalents on the statements of net position. The balances are categorized to give an indication of the level of risk assumed by the Authority at year end. At December 31, 2021, all cash deposits of the Authority were fully insured by the FDIC and, therefore, the Authority had no custodial credit risk related to cash deposits.

HERMITAGE MUNICIPAL AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

4. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2021 and 2020, was as follows:

	BALANCE JANUARY 1, 2021	ADDITIONS	DISPOSALS	BALANCE DECEMBER 31, 2021
<u>Capital Assets Not Being Depreciated -</u>				
Construction-in- Progress	\$ 563,304	\$ 46,891	\$ (499,767)	\$ 110,428
Land	64,000	-	-	64,000
<u>Capital Assets Being Depreciated -</u>				
Buildings	1,021,702	1,324,815	-	2,346,517
Furniture, Fixtures, and Equipment	2,299,335	844,753	-	3,144,088
Sewer System	73,731,498	310,858	-	74,042,356
<u>TOTALS:-</u>	<u>77,679,839</u>	<u>2,527,317</u>	<u>(499,767)</u>	<u>79,707,389</u>
<u>Accumulated Depreciation For -</u>				
Buildings	(424,566)	(33,823)	-	(458,389)
Furniture, Fixtures, and Equipment	(744,950)	(83,333)	-	(828,283)
Sewer System	(26,729,501)	(1,942,372)	-	(28,671,873)
<u>TOTAL ACCUMULATED DEPRECIATION:-</u>	<u>(27,899,017)</u>	<u>(2,059,528)</u>	<u>-</u>	<u>(29,958,545)</u>
<u>CAPITAL ASSETS, NET:-</u>	<u>\$ 49,780,822</u>	<u>\$ 467,789</u>	<u>\$ (499,767)</u>	<u>\$ 49,748,844</u>

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	BALANCE JANUARY 1, 2020	ADDITIONS	DISPOSALS	BALANCE DECEMBER 31, 2020
<u>Capital Assets Not Being Depreciated -</u>				
Construction-in- Progress	\$ 293,258	\$ 531,459	(261,413)	\$ 563,304
Land	64,000	-	-	64,000
<u>Capital Assets Being Depreciated -</u>				
Buildings	1,021,702	-	-	1,021,702
Furniture, Fixtures, and Equipment	1,443,925	855,410	-	2,299,335
Sewer System	73,157,610	573,888	-	73,731,498
<u>TOTALS:-</u>	<u>75,980,495</u>	<u>1,960,757</u>	<u>(261,413)</u>	<u>77,679,839</u>
<u>Accumulated Depreciation For -</u>				
Buildings	(399,023)	(25,543)	-	(424,566)
Furniture, Fixtures, and Equipment	(704,779)	(40,171)	-	(744,950)
Sewer System	(24,756,983)	(1,972,518)	-	(26,729,501)
<u>TOTAL ACCUMULATED DEPRECIATION:-</u>	<u>(25,860,785)</u>	<u>(2,038,232)</u>	<u>-</u>	<u>(27,899,017)</u>
<u>CAPITAL ASSETS, NET:-</u>	<u>\$ 50,119,710</u>	<u>\$ (77,475)</u>	<u>(261,413)</u>	<u>\$ 49,780,822</u>

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

5. NON-CURRENT LIABILITIES

Non-current liabilities activity for the years ended December 31, 2021 and 2020, was as follows:

	BALANCE JANUARY 1, 2021	BORROWING	PAYMENTS OR ACCRETIONS	BALANCE DECEMBER 31, 2021	DUE WITHIN ONE YEAR
<u>Bonds Payable -</u>					
Series of 2021 - Sewer Revenue Bonds	\$ -	\$ 9,185,000	-	\$ 9,185,000	\$ 15,000
Series of 2016 - Sewer Revenue Bonds	8,935,000	-	(8,935,000)	-	-
Series A of 2020 - Sewer Revenue Bonds	1,270,000	-	(5,000)	1,265,000	5,000
Series B of 2020 - Sewer Revenue Bonds	4,140,000	-	-	4,140,000	-
Series C of 2020 - Sewer Revenue Bonds	15,005,000	-	(1,450,000)	13,555,000	1,485,000
<u>SUBTOTAL - BONDS:-</u>	\$ 29,350,000	\$ 9,185,000	\$ (10,390,000)	\$ 28,145,000	\$ 1,505,000
Deferred Amounts for Issuance Discount	(123,944)	-	61,116	(62,828)	(4,378)
Deferred Amounts for Issuance Premium	1,869,748	1,610,058	(256,419)	3,223,387	278,937
<u>TOTAL - BONDS PAYABLE, NET:-</u>	\$ 31,095,804	\$ 10,795,058	\$ (10,585,303)	\$ 31,305,559	\$ 1,779,559
<u>Note Payable</u>	\$ 8,829,314	\$ -	\$ (668,835)	\$ 8,160,479	\$ 675,965

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

	BALANCE JANUARY 1, 2020	BORROWING	PAYMENTS OR ACCRETIONS	BALANCE DECEMBER 31, 2020	DUE WITHIN ONE YEAR
<u>Bonds Payable -</u>					
Series A of 2012 - Sewer Revenue Bonds	\$ 5,960,000	\$ -	\$ (5,960,000)	\$ -	\$ -
Series B of 2012 - Sewer Revenue Bonds	1,835,000	-	(1,835,000)	-	-
Series C of 2012 - Sewer Revenue Bonds	1,765,000	-	(1,765,000)	-	-
Series of 2015 - Sewer Revenue Bonds	9,785,000	-	(9,785,000)	-	-
Series of 2016 - Sewer Revenue Bonds	9,025,000	-	(90,000)	8,935,000	100,000
Series A of 2020 - Sewer Revenue Bonds	-	1,270,000	-	1,270,000	5,000
Series B of 2020 - Sewer Revenue Bonds	-	4,140,000	-	4,140,000	-
Series C of 2020 - Sewer Revenue Bonds	-	15,005,000	-	15,005,000	1,450,000
<u>SUBTOTAL - BONDS:-</u>	<u>28,370,000</u>	<u>20,415,000</u>	<u>(19,435,000)</u>	<u>29,350,000</u>	<u>1,555,000</u>
Deferred Amounts for Issuance Discount	(311,895)	(70,858)	258,809	(123,944)	(10,656)
Deferred Amounts for Issuance Premium	93,048	1,941,661	(164,961)	1,869,748	143,827
<u>TOTAL - BONDS PAYABLE, NET:-</u>	<u>\$ 28,151,153</u>	<u>\$ 22,285,803</u>	<u>\$ (19,341,152)</u>	<u>\$ 31,095,804</u>	<u>\$ 1,688,171</u>
<u>Note Payable</u>	<u>\$ 9,491,092</u>	<u>\$ -</u>	<u>\$ (661,778)</u>	<u>\$ 8,829,314</u>	<u>\$ 668,835</u>

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6. BONDS PAYABLE

During 2012, the Authority issued \$ 12,855,000 of Series A Guaranteed Sewer Revenue Bonds with interest rates ranging from .65 percent to 3.0 percent, maturing in 2023, to advance refund the Authority's outstanding balance of the 2003 Bonds. The 2012 Series A Guaranteed Sewer Revenue Bonds were refunded during the year ended December 31, 2020.

During 2012, the Authority issued \$ 2,440,000 of Series B Guaranteed Sewer Revenue Bonds with interest rates ranging from .65 percent to 3.5 percent, maturing in 2032, to currently refund the outstanding balance of the Authority's 2006 Bonds. The 2012 Series B Guaranteed Sewer Revenue Bonds were refunded during the year ended December 31, 2020.

During 2012, the Authority issued \$ 2,500,000 of Series C Guaranteed Sewer Revenue Bonds with interest rates ranging from .65 percent to 3.625 percent, maturing 2033, to fund various capital projects. The 2012 Series C Guaranteed Sewer Revenue Bonds were refunded during the year ended December 31, 2020.

During 2015, the Authority issued \$ 10,000,000 of Series 2015 Guaranteed Sewer Revenue Bonds with interest rates ranging from 2.00 percent to 3.28 percent, maturing 2033, to refund a portion of the Authority's outstanding Guaranteed Sewer Revenue Bonds Series A of 2010, pay the premium on a debt service reserve fund surety bond, fund various capital projects of the Authority, and pay the cost of issuing the Bonds. The 2015 Guaranteed Sewer Revenue Bonds were refunded during the year ended December 31, 2020.

During 2016, the Authority issued \$ 9,485,000 of Series 2016 Guaranteed Sewer Revenue Bonds with interest rates ranging from 2.00 percent to 3.00 percent, maturing 2030, to refund a portion of the Authority's outstanding Guaranteed Sewer Revenue Bonds Series A of 2010, pay the premium on a debt service reserve fund surety bond, fund various capital projects of the Authority, and pay the cost of issuing the Bonds. The 2016 Sewer Revenue Bonds were refunded during the year ended December 31, 2021.

During 2020, the Authority issued \$ 1,270,000 of Series A 2020 Guaranteed Sewer Revenue Bonds to currently refund a portion of the Authority's outstanding Guaranteed Sewer Revenue Bonds Series B of 2012, pay the premium on a debt service reserve fund surety bond, and pay the cost of issuing the Bonds. The interest rates vary between 1.50 percent to 2.125 percent and mature from 2021 to 2034.

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At December 31, 2021, the debt service requirements of principal and interest on the Series A of 2020 Sewer Revenue Bonds were as follows:

	<u>SERIES A OF 2020 SEWER REVENUE BONDS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2022	\$ 5,000	\$ 25,713	\$ 30,713
2023	5,000	25,638	30,638
2024	5,000	25,563	30,563
2025	5,000	25,488	30,488
2026	5,000	25,413	30,413
2027 - 2031	25,000	125,625	150,625
2032 - 2034	1,215,000	46,988	1,261,988
<u>TOTAL:-</u>	<u>\$ 1,265,000</u>	<u>\$ 300,428</u>	<u>\$ 1,565,428</u>

During 2020, the Authority issued \$ 4,140,000 of Series B 2020 Guaranteed Sewer Revenue Bonds to finance various projects, pay the premium on a debt service reserve fund surety bond, and pay the cost of issuing the Bonds. The interest rates vary between 2.125 percent to 2.250 percent and mature at various times from 2034 to 2036.

At December 31, 2021, the debt service requirements of principal and interest on the Series B of 2020 Sewer Revenue Bonds were as follows:

	<u>SERIES B OF 2020 SEWER REVENUE BONDS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2022	\$ -	\$ 90,713	\$ 90,713
2023	-	90,713	90,713
2024	-	90,713	90,713
2025	-	90,713	90,713
2026	-	90,713	90,713
2027 - 2031	-	453,563	453,563
2032 - 2036	4,140,000	291,844	4,431,844
<u>TOTAL:-</u>	<u>\$ 4,140,000</u>	<u>\$ 1,198,972</u>	<u>\$ 5,338,972</u>

As a result of issuance of the Series A and B of 2020 Bonds, the Authority had a cash flow savings of (\$ 116,548) and an economic gain of \$ 62,024.

During 2020, the Authority issued \$ 15,005,000 of Series C 2020 Guaranteed Sewer Revenue Bonds to currently refund a portion of the Authority's outstanding Guaranteed Sewer Revenue Bonds Series A, B, and C of 2012 and the Series 2015 bonds, pay the premium on a debt service reserve fund surety bond, and pay the cost of issuing the Bonds. The interest rates vary between 2.00 percent to 4.00 percent and mature from 2021 to 2033.

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At December 31, 2021, the debt service requirements of principal and interest on the Series C of 2020 Sewer Revenue Bonds were as follows:

	<u>SERIES C OF 2020 SEWER REVENUE BONDS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2022	\$ 1,485,000	\$ 505,075	\$ 1,990,075
2023	1,365,000	455,500	1,820,500
2024	5,000	428,100	433,100
2025	5,000	427,900	432,900
2026	960,000	408,600	1,368,600
2027 - 2031	5,915,000	1,380,700	7,295,700
2032 - 2033	3,820,000	139,200	3,959,200
<u>TOTAL:-</u>	<u>\$ 13,555,000</u>	<u>\$ 3,745,075</u>	<u>\$ 17,300,075</u>

As a result of issuance of the Series C of 2020 Bonds, the Authority had a cash flow savings of \$ 1,206,254 and an economic gain of \$ 1,044,716.

During 2021, the Authority issued \$ 9,185,000 of Series 2021 Guaranteed Sewer Revenue Bonds with interest rates ranging from 3.00 percent to 4.00 percent, maturing 2033, to refund a portion of the Authority's outstanding Guaranteed Sewer Revenue Bonds Series of 2016, pay the premium on a debt service reserve fund surety bond, fund various capital projects of the Authority, and pay the cost of issuing the Bonds.

At December 31, 2021, the debt service requirements of principal and interest on the Series 2021 Guaranteed Sewer Revenue Bonds were as follows:

	<u>SERIES OF 2021 SEWER REVENUE BONDS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2022	\$ 15,000	\$ 365,125	\$ 380,125
2023	190,000	362,050	552,050
2024	1,650,000	326,200	1,976,200
2025	1,720,000	258,800	1,978,800
2026	835,000	207,700	1,042,700
2027 - 2031	4,205,000	541,900	4,746,900
2032 - 2033	570,000	32,000	602,000
<u>TOTAL:-</u>	<u>\$ 9,185,000</u>	<u>\$ 2,093,775</u>	<u>\$ 11,278,775</u>

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At December 31, 2021, the total debt service requirements of principal and interest on all outstanding bonds were as follows:

	<u>TOTAL BOND DEBT SERVICE</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>DEBT SERVICE</u>
2022	\$ 1,505,000	\$ 986,626	\$ 2,491,626
2023	1,560,000	933,901	2,493,901
2024	1,660,000	870,576	2,530,576
2025	1,730,000	802,901	2,532,901
2026	1,800,000	732,426	2,532,426
2027 - 2031	10,145,000	2,501,788	12,646,788
2032 - 2036	9,745,000	510,032	10,255,032
<u>TOTAL:-</u>	<u>\$ 28,145,000</u>	<u>\$ 7,338,250</u>	<u>\$ 35,483,250</u>

The amounts above do not reflect an original issue discount in the amount of \$ 49,726 and \$ 21,130 as of December 31, 2021 and 2020, respectively, for the 2020 Series A & B Bonds. The discount is being amortized using the straight-line method over the life of the 2020 Series A & B Bonds.

The amounts above do not reflect an original issue premium in the amount of \$ 1,941,661 and \$ - 0 - as of December 31, 2021 and 2020, respectively, for the 2020 Series C Bonds. The premium is being amortized using the straight-line method over the life of the 2020 Series C Bonds.

The amounts above do not reflect an original issue premium in the amount of \$ 1,610,058 as of December 31, 2021 for the 2021 Series Bonds. The premium is being amortized using the straight-line method over the life of the 2021 Series Bonds.

All bonds of the Authority are guaranteed by the City.

In connection with the bond indentures, rather than fund a debt service reserve account for the various bond issuances, the Authority has issued surety bonds, for the benefit of the bond trustee, U. S. Bank National Association. The following is a summary of the outstanding surety bonds at December 31, 2021:

<u>DESCRIPTION</u>	<u>SURETY BOND AMOUNT</u>
Series of A and B of 2020 Guaranteed Sewer Revenue Bonds	<u>\$ 541,000</u>
Series C of 2020 Guaranteed Sewer Revenue Bonds	<u>\$ 1,500,500</u>
Series of 2021 Guaranteed Sewer Revenue Bonds	<u>\$ 918,500</u>

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The Bonds contain certain events of default. In the event the Authority is deemed in default, the bondholder may demand immediate payment of all outstanding principal and accrued interest. All Bonds are secured by the Eleventh Amendment to the Agreement of Lease and Guaranty date February 16, 2021, by and between the City and the Authority. The Lease and Guaranty provides for the rental payments to the Authority for use, by the City, of the sewer system sufficient to provide funds for paying the principal of and the interest on the Bonds as they become due. The Lease and Guaranty Agreement further provides that the bonds shall be secured by the lien thereof on such rental payments, and that the principal of, and interest and premium (if any) on such bonds shall be payable only from such rental payments and from other moneys that may be available for such purposes in accordance with the provisions of the Lease and Guaranty Agreement.

7. NOTE PAYABLE

The Authority entered into an agreement with the Pennsylvania Infrastructure Investment Authority (PENNVEST) to provide financing for the upgrade and expansion of the wastewater treatment plant. The PENNVEST loan amounted to \$ 13,788,203. The terms of the loan provide for monthly payments of interest only at 1.00 percent through January 2014, then 60 monthly payments, beginning in 2015 of \$ 63,411, including interest at 1.00 percent for 36 months, increased to 1.06 percent interest for 24 months, followed by 180 payments of \$ 63,696, including interest at 1.06 percent. The loan matures 20 years after payments begin. The loan is collateralized by an assignment of the lease agreement between the Authority and the City regarding operation of the sewer system, a lien on the sewer revenues of the City, and a pledge of the City's taxing authority.

The total balance outstanding at December 31, 2021 and 2020, was \$ 8,160,479 and \$ 8,829,314 respectively.

At December 31, 2021, the debt service requirements of principal and interest on the note payable were as follows:

	PENNVEST NOTE PAYABLE		
	PRINCIPAL	INTEREST	TOTAL
2022	\$ 675,965	\$ 83,302	\$ 759,267
2023	683,172	76,095	759,267
2024	690,456	68,811	759,267
2025	697,818	61,450	759,268
2026	705,258	54,010	759,268
2027 - 2031	3,640,693	155,642	3,796,335
2032 - 2033	1,067,117	8,411	1,075,528
<u>TOTAL:-</u>	<u>\$ 8,160,479</u>	<u>\$ 507,721</u>	<u>\$ 8,668,200</u>

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This direct borrowing is secured by the following:

- The assignment of the lease agreement between the Authority and the City of Hermitage regarding the operations of the Sewer System.
- The guaranty of the City of Hermitage secured by a lien on its sewer fund revenues.
- The guaranty of the City of Hermitage secured by a pledge of its taxing authority.

This direct borrowing contains certain restrictive covenants with which the Authority must comply. It also contains certain provisions that constitute an event of default. If the lender deems the Authority to be in default, the outstanding principal balance and any accrued and unpaid interest is immediately due and payable in full. In addition, PENNVEST may exercise any and all rights in the security interest in the collateral.

8. NET INVESTMENT IN CAPITAL ASSETS

At December 31, 2021 and 2020, net investment in capital assets is composed of the following:

	<u>2021</u>	<u>2020</u>
Capital Assets	\$ 49,748,844	\$ 49,780,822
Outstanding Principal of Capital Related Debt	(36,305,479)	(38,179,313)
Premiums on Bonds	(3,223,387)	(1,869,747)
Discounts on Bonds	62,828	123,942
Unspent Bond Proceeds	1,730,802	1,898,081
Capital Related Deferred Inflow of Resources	(36,884)	(62,871)
Capital Related Deferred Outflow of Resources	<u>709,972</u>	<u>701,886</u>
<u>TOTAL:-</u>	<u>\$ 12,686,696</u>	<u>\$ 12,392,800</u>

9. LEASE AGREEMENTS AND RELATED PARTY

In 2021, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2021. In conjunction therewith, the eleventh amendment to the Agreement of Lease and Guaranty with the City was executed. This agreement incorporates the City of Hermitage's Sewer Utility Fund's (Sewer Utility Fund) previous obligations with the Authority regarding the 2011 PENNVEST loan, the Series A, B, and C of 2020 Bonds, and the Series of 2021 Bonds.

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The City covenants under the terms of the lease, that if in any year revenues derived from the operation of the sewer system are insufficient to enable the sewer utility fund to meet its current obligations, the City will provide the funds from its operating budget. All of these debts of the Authority have been determined to be self-liquidating debts. The lease is to fund various obligations of the Authority incurred for the mandated renovation and construction of various parts of the sewer system. The lease agreement has not been capitalized by the City or the Authority since the lease does not transfer all of the risk of ownership of the sewer system to the City. Accordingly, payments received from the City for the lease agreement are recognized as lease revenue in the Authority's financial statements.

The following is a schedule of approximate future lease rental payments to be received from the City under the lease agreement:

<u>YEAR ENDED DECEMBER 31:-</u>	<u>RENTAL REVENUE</u>
2022	\$ 3,250,893
2023	3,253,168
2024	3,289,843
2025	3,292,169
2026	3,291,694
Thereafter	<u>27,773,683</u>
 <u>TOTAL:-</u>	 <u>\$ 44,151,450</u>

10. GRANT

The Authority received a grant from the Pennsylvania Small Water and Sewer Program to fund a portion of the current year expansion of the sanitary sewer system. The grant amounted to \$ 197,434 and is included as a capital contribution on the statement of revenues, expenses and changes in net position for the year ended December 31, 2021

11. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 23, 2022, the date which the financial statements were available to be issued, and concluded that no events have occurred that would require recognition or disclosure in the financial statements or notes.