

**Application of Pennsylvania-American Water Company for Acquisition of
the Water Assets of the Steelton Borough Authority
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2019-_____**

19. Cost of Service.

- a. Provide a copy of the seller's audited financial statement for the previous two years.

RESPONSE:

- a. See enclosed audited financial statements provided by the Authority for the previous two years (2016 and 2017).

**STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF
THE BOROUGH OF STEELTON)
FINANCIAL STATEMENTS
– MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2016**

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
YEAR ENDED DECEMBER 31, 2016

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Steelton Borough Authority
Steelton, Pennsylvania

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Steelton Borough Authority (the "Authority"), a component unit of the Borough of Steelton, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Steelton Borough Authority, as of December 31, 2016, and the respective changes in the modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Zelenkofske Axelrod LLC

To the Board of Directors
Steelton Borough Authority
Steelton, Pennsylvania

Adoption of Governmental Accounting Standards Board Pronouncements

As discussed in Note 1 to the financial statements in 2016 the Authority adopted the provisions of Statement No. 72 "Fair Value Measurement and Application", the provisions of No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*", the provisions of Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", the provisions of Statement No. 77, "*Tax Abatement Disclosures*", the provisions of Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*", and the provisions of Statement No. 79, "*Certain External Investment Pools and Pool Participants*". Our opinion is not modified with respect to these matters.

Other Matters

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 modified cash basis basic financial statements is not affected by this missing information.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
June 27, 2017

Steelton Borough Authority
Statement of Net Position - Modified Cash Basis
December 31, 2016

	Business Type Activities - Enterprise Funds
Assets	
Current Assets:	
Cash & Cash Equivalents	\$ 2,765,399
Due From Primary Government	2,051,764
Restricted Cash	347
Total Current Assets	4,817,510
Noncurrent Assets:	
Capital Assets, Being Depreciated, Net of Accumulated Depreciation	10,913,581
Total Noncurrent Assets	10,913,581
Total Assets	15,731,091
Liabilities	
Current Liabilities:	
Security Deposit	347
Due to Primary Government	113,554
Bonds Payable, net	362,944
Loans Payable	130,616
Total Current Liabilities	607,461
Noncurrent Liabilities:	
Bonds Payable, net	7,256,711
Loans Payable	2,115,065
Total Noncurrent Liabilities	9,371,776
Total Liabilities	9,979,237
Net Position	
Net Investment in Capital Assets	3,100,009
Unrestricted	2,651,845
Total Net Position	\$ 5,751,854

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

Steelton Borough Authority
Statement of Revenues, Expenses, and Changes in Fund Net
Position - Modified Cash Basis
For the Year ended December 31, 2016

	Business Type Activities - Enterprise Funds
Operating Revenues	
Charges for Service	\$ 2,852,458
Total Operating Revenues	2,852,458
Operating Expenses	
System - Water	1,200,035
Water Treatment	779,894
Administrative	118,871
Depreciation	483,048
Amortization	6,135
Total Operating Expenses	2,587,983
Operating Income	264,475
Nonoperating Revenues/(Expenses)	
Interest Revenue	14,147
Interest Expense	(273,730)
Miscellaneous Revenue	208
Total Non-operating Expenses	(259,375)
Income Before Capital Grant Funding and Operating Transfers	5,100
Capital Grant Funding	34,046
Transfers to Primary Government	(39,573)
Transfers from Primary Government	7,065
Total Capital Grant Funding and Operating Transfers	1,538
Change In Net Position	6,638
Total Net Position - Beginning of Year	5,745,216
Total Net Position - End of Year	\$ 5,751,854

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

Steelton Borough Authority
Statement of Cash Flows - Modified Cash Basis
For the year ended December 31, 2016

Page 5

	Business Type Activities - Enterprise Funds
Cash Flows From Operating Activities:	
Receipts from Charges for Service	\$ 2,852,458
Payment to Employees	(606,008)
Payment to Suppliers	(1,254,945)
Net Cash Provided by Operating Activities	991,505
Cash Flows From Investing Activities:	
Investment Income	14,147
Net Cash Provided by Investing Activities	14,147
Cash Flows From Non-Capital Financing Activities:	
Operating Transfers Out	(39,573)
Miscellaneous Revenue	208
Operating Transfers In	7,065
Net Cash Used in Non-Capital Financing Activities	(32,300)
Cash Flows From Capital and Related Financing Activities:	
Purchase of Capital Assets	(449,247)
Principal Payments	(549,279)
Capital Grant Funding	34,046
Interest Payments	(273,730)
Net Cash Used in Capital and Related Financing Activities	(1,238,210)
Net Decrease in Cash and Cash Equivalents	(264,858)
Cash and Cash Equivalents - Beginning of Year	3,030,604
Cash and Cash Equivalents - End of Year	\$ 2,765,746
Presented in the Financial Statements as:	
Cash and Cash Equivalents	\$ 2,765,399
Restricted Cash	347
Total Cash and Cash Equivalents	\$ 2,765,746
Reconciliation of Operating income to net cash provided by operating activities:	
Operating Income	\$ 264,475
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	483,048
Amortization Expense	6,135
Changes in Assets and Liabilities:	
Due from Primary Government	124,301
Due to Primary Government	113,546
Net Cash Provided by Operating Activities	\$ 991,505
Supplementary Disclosure of Noncash Transactions:	
Amortization of Bond Discount	\$ 6,135
Grant Funding	34,046
Total Noncash Transactions	\$ 40,181

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

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Steelton Borough Authority (the "Authority") was created pursuant to an ordinance of the Steelton Borough Council (Borough), incorporated under the Municipality Authorities Act of 1945, being the Act of May 2, 1945, P.L. 382, as amended by the Commonwealth of Pennsylvania.

The purpose of the Authority includes those activities of acquiring, holding, constructing, improving, owning and leasing water, water systems or parts thereof. The Authority is overseen by the Board which consists of five members who are appointed by the Borough Council. The Authority employed the Borough to manage and operate the water system through a management agreement in which the Authority owns and is responsible for the management of and charges for water services. The Authority is considered a Component Unit of the Borough.

A summary of the Authority's significant accounting policies are as follows.

A. Reporting Entity

Consistent with the guidance contained in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB-14, *The Reporting Entity*, the criteria used by the Authority to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship.

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

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's financial statements are presented on the modified cash basis of accounting. The modified cash basis differs from the accounting principles generally accepted in the United States of America. Under this basis, revenues, expenses and related assets and liabilities are recorded when they result from cash transactions except for the recording of amortization of bond discounts and depreciation expense on capital assets. As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expense and liabilities) are not recorded in these financial statements.

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

All activities of the Authority are accounted for within one proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus, within the modifications of the cash basis. The accounting objectives of the economic resources measurement are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial, or non-financial) associated with these activities are reported.

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

C. Cash and Cash Equivalents

Cash and cash equivalents, for the purposes of the statement of cash flows, include restricted cash on hand or on deposit with a maturity of three months or less when purchased.

D. Restricted Cash

Restricted cash represents cash held in escrow for security deposits. At December 31, 2016, the restricted cash balance was \$347.

E. Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure, are reported in the financial statements at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Depreciation is recorded using the straight-line method over the estimated useful life of the various assets.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

STEELTON BOROUGH AUTHORITY
 (COMPONENT UNIT OF THE BOROUGH OF STEELTON)
 NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
 DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

E. Capital Assets (Continued)

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

Buildings and improvements	10-40 Years
Furniture and fixtures	10-20 Years
Machinery and equipment	5-20 Years
Infrastructure	5-99 Years
Vehicles	5-10 Years

F. Debt Related Costs

Debt related costs include bond discounts and are amortized to interest expense using the straight-line method over the term of the associated debt. Amortization expense for the year ended December 31, 2016 was \$6,135.

G. Net Position

Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment In Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents the net position of the Authority, not restricted for any project or other purpose.

H. Use of Estimates

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

I. Adoption of Governmental Accounting Standards Board Statements

The Authority adopted the provisions of GASB Statement No. 72 "Fair Value Measurement and Application", the provisions of Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68", the provisions of Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", the provisions of Statement No. 77, "Tax Abatement Disclosures", the provisions of Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", and the provisions of Statement No. 79, "Certain External Investment Pools and Pool Participants". The adoption of these statements had no effect on previously reported amounts.

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

G. Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*." The Authority is required to adopt statement No. 74 for its calendar year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*." The Authority is required to adopt statement No. 75 for its calendar year 2018 financial statements.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*". The Authority is required to adopt statement No. 80 for its calendar year 2017 financial statements.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*". The Authority is required to adopt statement No. 81 for its calendar year 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". The Authority is required to adopt statement No. 82 for its calendar year 2017 financial statements.

In November 2016, the GASB issued Statement No. 83, "*Certain Asset Retirement Obligations*". The Authority is required to adopt statement No. 83 for its calendar year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities*". The Authority is required to adopt statement No. 84 for its calendar year 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, "*Omnibus 2017*". The Authority is required to adopt statement No. 85 for its calendar year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, "*Certain Debt Extinguishment Issues*". The Authority is required to adopt statement No. 86 for its calendar year 2018 financial statements.

The Authority has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

STEELTON BOROUGH AUTHORITY
 (COMPONENT UNIT OF THE BOROUGH OF STEELTON)
 NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
 DECEMBER 31, 2016

NOTE 2: DEPOSITS AND INVESTMENT RISK

Custodial Credit Risk – For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. At December 31, 2016, the Authority's cash balance including restricted cash was \$2,765,746 and its bank balances were \$2,756,821. Of these bank balances, \$2,506,821 was exposed to custodial credit risk, as it is collateralized with securities held by the pledging financial institutions, not in the Authority's name, and uninsured. The Authority does not have a written policy to limit its exposure to custodial credit risk.

NOTE 3: CAPITAL ASSETS

Capital Assets activity consisted of the following:

	Balance January 1, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2016</u>
WATER FUND:				
Capital assets being depreciated				
Buildings and improvements	\$ 1,400,417	\$ -	\$ -	\$ 1,400,417
Furniture and fixtures	102,986	-	-	102,986
Machinery and equipment	1,974,904	137,841	-	2,112,745
Infrastructure	14,548,171	245,911	-	14,794,082
Vehicles	212,723	65,495	-	278,218
Total capital assets being depreciated	18,239,201	449,247	-	18,688,448
Accumulated depreciation	(7,291,819)	(483,048)	-	(7,774,867)
Total capital assets being depreciated, net	10,947,382	(33,801)	-	10,913,581
Water fund capital assets, net	<u>\$ 10,947,382</u>	<u>\$ (33,801)</u>	<u>\$ -</u>	<u>\$ 10,913,581</u>

Depreciation expense was \$483,048 for the Authority for the year ended December 31, 2016.

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2016

NOTE 4: LONG TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable	\$ 8,121,665	\$ -	\$ (382,965)	\$ 7,738,700	\$ 369,079
Bond Discount	(125,180)	-	6,135	(119,045)	(6,135)
Loans Payable	2,378,213	-	(132,532)	2,245,681	130,616
Total General Obligation Debt	10,374,698	-	(509,362)	9,865,336	493,560
Capital Lease Obligation	33,782	-	(33,782)	-	-
Total Long-term Liabilities	\$ 10,408,480	\$ -	\$ (543,144)	\$ 9,865,336	\$ 493,560

An analysis of debt service requirements to maturity on the Business-Type Activities obligations is as follows:

Years Ended December 31:	Principal Requirements	Interest Requirements	Total Debt Service Requirements
2017	\$ 499,695	\$ 260,620	\$ 760,315
2018	509,618	255,890	765,508
2019	534,552	246,540	781,092
2020	543,397	235,524	778,921
2021	551,947	222,466	774,413
2022-2026	2,980,480	891,692	3,872,172
2027-2031	2,839,002	481,974	3,320,976
2032-2036	532,300	237,939	770,239
2037-2041	586,812	142,962	729,774
2042-2045	406,578	30,965	437,543
	\$9,984,381	\$3,006,572	\$12,990,953

2010	\$2,959,726	PennVest Loan with principal due through 2032. Interest rates for the first five years are 1.278% and after are 1.772%. The loan is for a Water System Improvement Project and has a guaranty by Steelton Borough.	\$2,245,681
2012	\$4,015,622	General Obligation Bonds Series of 2012 with principal due annually through December 1, 2025 with interest due semi-annually with rates ranging from 1.00% to 3.70%. The proceeds of the bond were used to refund outstanding issuances.	\$2,733,170

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2016

NOTE 4: LONG TERM LIABILITIES (CONTINUED)

2015	\$5,109,344	General Obligation Bonds Series of 2015 with principal due annually through December 1, 2044 with interest due semi-annually with rates ranging from 0.35% to 3.75%. The proceeds of the bonds were used for capital projects and to refund outstanding issuances.	<u>\$5,005,530</u>
Total Long-Term Debt			<u>\$9,984,381</u>

In 2016, the Authority entered into a loan with Pennvest for clearwell improvements. The loan bears a term of 240 months with interest rates ranging from 1.644% to 2.129%. The first drawdown on the loan occurred in March 2017. As of December 31, 2016 the outstanding balance on the loan was \$0.

NOTE 6: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages during 2016. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 7: ECONOMIC DEPENDENCY

One major customer of the Authority accounted for 61% of water sales.

NOTE 8: MANAGEMENT AGREEMENT

The Authority entered into a management agreement with the Borough to manage the day-to-day operations of the water system to include repair, maintenance, and administration. The Authority owns and is responsible for the management of and charges for water services. The power of the Authority is exercised by the Board composed of five members, appointed by the Borough Council.

NOTE 9: COMMITMENTS AND CONTINGENCIES

The Pennsylvania Local Debt Act (the "Act") permits local governments to extend nonexchange financial guarantees on certain debt issued by entities located within the government's physical boundaries. The Borough issued General Obligation Bonds Series of 2012 in the amount of \$9,180,000 and General Obligation Bonds Series of 2015 in the amount of 6,145,000. A portion of the debt is recorded as an obligation of the Steelton Borough Authority. The Borough also guarantees the Authority's 2010 Note with Pennvest. The full faith, credit and taxing power of the Borough is pledged to redeem these notes and bonds if the revenues from water fees are insufficient to meet the obligations. The Borough has not been called on to make any payments on the debt. See Note 4 for specific information and balances outstanding related to these debt issues.

**STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF
THE BOROUGH OF STEELTON)
FINANCIAL STATEMENTS
– MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2017**

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
YEAR ENDED DECEMBER 31, 2017

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Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Steelton Borough Authority
Steelton, Pennsylvania

Report on Financial Statements

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Steelton Borough Authority (the "Authority"), a component unit of the Borough of Steelton, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the Steelton Borough Authority, as of December 31, 2017, and the respective changes in the modified cash basis financial position and, where applicable, cash flows thereof for the year then ended on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Steelton Borough Authority
Steelton, Pennsylvania
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Adoption of Governmental Accounting Standards Board Pronouncements

As discussed in Note 1 to the financial statements in 2017 the Authority adopted the provisions of Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*", Statement No. 81, "*Irrevocable Split-Interest Agreements*", and Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". Our opinion is not modified with respect to these matters.

Other Matters

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 modified cash basis basic financial statements is not affected by this missing information.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
June 29, 2018

Steelton Borough Authority
(Component Unit of the Borough of Steelton)
Statement of Net Position - Modified Cash Basis
December 31, 2017

	Business Type Activities - Enterprise Funds
Assets	
Current Assets:	
Cash & Cash Equivalents	\$ 2,479,310
Due From Primary Government	2,043,325
Restricted Cash	347
Total Current Assets	4,522,982
Noncurrent Assets:	
Capital Assets, Not Being Depreciated	
Capital Assets, Being Depreciated, Net of Accumulated Depreciation	2,325,539 10,635,297
Total Noncurrent Assets	12,960,836
Total Assets	17,483,818
Deferred Outflows of Resources	
Deferred Charges on Refundings	42,515
Total Deferred Outflows of Resources	42,515
Liabilities	
Current Liabilities:	
Security Deposit	347
Bonds Payable, net	397,217
Loans Payable	202,313
Total Current Liabilities	599,877
Noncurrent Liabilities:	
Bonds Payable, net	7,014,395
Loans Payable	4,098,798
Total Noncurrent Liabilities	11,113,193
Total Liabilities	11,713,070
Net Position	
Net Investment in Capital Assets	3,333,953
Unrestricted	2,479,310
Total Net Position	\$ 5,813,263

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

Steeltown Borough Authority
 (Component Unit of the Borough of Steeltown)
 Statement of Revenues, Expenses, and Changes in Fund Net
 Position - Modified Cash Basis
 For the Year ended December 31, 2017

	Business Type Activities - Enterprise Funds
Operating Revenues	
Charges for Service	\$ 2,664,325
Total Operating Revenues	2,664,325
Operating Expenses	
System - Water	894,391
Water Treatment	795,490
Administrative	123,227
Depreciation	505,201
Amortization	6,140
Total Operating Expenses	2,324,449
Operating Income	339,876
Nonoperating Revenues/(Expenses)	
Interest Revenue	12,371
Interest Expense	(246,260)
Bond Issuance Costs	(60,365)
Miscellaneous Revenue	1,838
Total Non-operating Expenses	(292,416)
Income Before Operating Transfers	47,460
Transfers from Primary Government	13,949
Change In Net Position	61,409
Total Net Position - Beginning of Year	5,751,854
Total Net Position - End of Year	\$ 5,813,263

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

Steelton Borough Authority
(Component Unit of the Borough of Steelton)
Statement of Cash Flows - Modified Cash Basis
For the year ended December 31, 2017

	Business Type Activities - Enterprise Funds
Cash Flows From Operating Activities:	
Receipts from Charges for Service	\$ 2,664,325
Payment to Employees	(568,357)
Payment to Suppliers	(1,349,866)
Net Cash Provided by Operating Activities	746,102
Cash Flows From Investing Activities:	
Investment Income	12,371
Net Cash Provided by Investing Activities	12,371
Cash Flows From Non-Capital Financing Activities:	
Miscellaneous Revenue	1,838
Operating Transfers In	13,949
Net Cash Provided By Non-Capital Financing Activities	15,787
Cash Flows From Capital and Related Financing Activities:	
Purchase of Capital Assets	(2,552,456)
Principal Payments	(3,183,154)
Bond Proceeds	2,780,540
Bond Issuance Costs	(60,365)
Loan Proceeds	2,186,047
Bond Premium	15,299
Interest Payments	(246,260)
Net Cash Used in Capital and Related Financing Activities	(1,060,349)
Net Decrease in Cash and Cash Equivalents	(286,089)
Cash and Cash Equivalents - Beginning of Year	2,765,746
Cash and Cash Equivalents - End of Year	\$ 2,479,657
Presented in the Financial Statements as:	
Cash and Cash Equivalents	\$ 2,479,310
Restricted Cash	347
Total Cash and Cash Equivalents	\$ 2,479,657
Reconciliation of Operating income to net cash provided by operating activities:	
Operating Income	\$ 339,876
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:	
Depreciation Expense	505,201
Amortization Expense	6,140
Changes In Assets and Liabilities:	
Due from Primary Government	8,439
Due to Primary Government	(113,554)
Net Cash Provided by Operating Activities	\$ 746,102
Supplementary Disclosure of Noncash Transactions:	
Amortization of Bond Discount and Bond Premium	\$ 6,140
Total Noncash Transactions	\$ 6,140

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

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2017

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Steelton Borough Authority (the "Authority") was created pursuant to an ordinance of the Steelton Borough Council (Borough), incorporated under the Municipality Authorities Act of 1945, being the Act of May 2, 1945, P.L. 382, as amended by the Commonwealth of Pennsylvania.

The purpose of the Authority includes those activities of acquiring, holding, constructing, improving, owning and leasing water, water systems or parts thereof. The Authority is overseen by the Board which consists of five members who are appointed by the Borough Council. The Authority employed the Borough to manage and operate the water system through a management agreement in which the Authority owns and is responsible for the management of and charges for water services. The Authority is considered a Component Unit of the Borough.

A summary of the Authority's significant accounting policies are as follows.

A. Reporting Entity

Consistent with the guidance contained in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No.14 and No. 34*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB-14, *The Reporting Entity*, the criteria used by the Authority to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship.

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

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's financial statements are presented on the modified cash basis of accounting. The modified cash basis differs from the accounting principles generally accepted in the United States of America. Under this basis, revenues, expenses and related assets and liabilities are recorded when they result from cash transactions except for the recording of amortization of bond discounts/premiums and depreciation expense on capital assets. As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expense and liabilities) are not recorded in these financial statements.

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2017

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

All activities of the Authority are accounted for within one proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus, within the modifications of the cash basis. The accounting objectives of the economic resources measurement are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial, or non-financial) associated with these activities are reported.

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

C. Cash and Cash Equivalents

Cash and cash equivalents, for the purposes of the statement of cash flows, include restricted cash on hand or on deposit with a maturity of three months or less when purchased.

D. Restricted Cash

Restricted cash represents cash held in escrow for security deposits. At December 31, 2017, the restricted cash balance was \$347.

E. Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure, are reported in the financial statements at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Depreciation is recorded using the straight-line method over the estimated useful life of the various assets.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

STEELTON BOROUGH AUTHORITY
 (COMPONENT UNIT OF THE BOROUGH OF STEELTON)
 NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
 DECEMBER 31, 2017

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

E. Capital Assets (Continued)

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

Buildings and improvements	10-40 Years
Furniture and fixtures	10-20 Years
Machinery and equipment	5-20 Years
Infrastructure	5-99 Years
Vehicles	5-10 Years

F. Debt Related Costs

Debt related costs include bond discounts, bond premiums, and deferred loss on refundings which are amortized using the straight-line method over the term of the associated debt. Amortization expense for the year ended December 31, 2017 was \$6,140.

G. Net Position

Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment In Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents the net position of the Authority, not restricted for any project or other purpose.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

H. Use of Estimates

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

I. Due From Primary Government

Due from Primary Government represents unspent bond proceeds from the issuance of the 2015 General Obligation Bonds due from the Borough of Steelton.

STEELTON BOROUGH AUTHORITY
 (COMPONENT UNIT OF THE BOROUGH OF STEELTON)
 NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
 DECEMBER 31, 2017

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

J. Adoption of Governmental Accounting Standards Board Statements

The Authority adopted the provisions of Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", Statement No. 80, "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14", Statement No. 81, "Irrevocable Split-Interest Agreements", and Statement No. 82, "Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73". The adoption of these statements had no effect on previously reported amounts.

K. Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The Authority is required to adopt statement No. 75 for its calendar year 2018 financial statements.

In November 2016, the GASB issued Statement No. 83, "Certain Asset Retirement Obligations". The Authority is required to adopt statement No. 83 for its calendar year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities". The Authority is required to adopt statement No. 84 for its calendar year 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, "Omnibus 2017". The Authority is required to adopt statement No. 85 for its calendar year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, "Certain Debt Extinguishment Issues". The Authority is required to adopt statement No. 86 for its calendar year 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, "Leases". The Authority is required to adopt statement No. 87 for its calendar year 2020 financial statements.

In April 2018, the GASB issued Statement No. 88, "Certain Disclosures related to Debt, including Direct Borrowing and Direct Placements." The Authority is required to adopt statement No. 88 for its calendar year 2019 financial statements.

The Authority has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2: DEPOSITS AND INVESTMENT RISK

Custodial Credit Risk – For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. At December 31, 2017, the Authority's cash balance including restricted cash was \$2,479,657 and its bank balances were \$2,463,528. Of these bank balances, \$2,213,528 was exposed to custodial credit risk, as it is collateralized with securities held by the pledging financial institutions, not in the Authority's name, and uninsured. The Authority does not have a written policy to limit its exposure to custodial credit risk.

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2017

NOTE 3: CAPITAL ASSETS

Capital Assets activity consisted of the following:

	Balance January 1, <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2017</u>
WATER FUND:				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 2,325,539	\$ -	\$ 2,325,539
Total capital assets not being depreciated	<u>-</u>	<u>2,325,539</u>	<u>-</u>	<u>2,325,539</u>
Capital assets being depreciated				
Buildings and improvements	1,400,417	-	-	1,400,417
Furniture and fixtures	102,986	-	-	102,986
Machinery and equipment	2,112,745	62,202	-	2,174,947
Infrastructure	14,794,082	164,715	-	14,958,797
Vehicles	278,218	-	-	278,218
Total capital assets being depreciated	18,688,448	226,917	-	18,915,365
Accumulated depreciation	<u>(7,774,867)</u>	<u>(505,201)</u>	<u>-</u>	<u>(8,280,068)</u>
Total capital assets being depreciated, net	<u>10,913,581</u>	<u>(278,284)</u>	<u>-</u>	<u>10,635,297</u>
Water fund capital assets, net	<u>\$ 10,913,581</u>	<u>\$ 2,047,255</u>	<u>\$ -</u>	<u>\$ 12,960,836</u>

Depreciation expense was \$505,201 for the Authority for the year ended December 31, 2017.

NOTE 4: LONG TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable	\$ 7,738,700	\$ 2,780,540	\$ (3,052,538)	\$ 7,466,702	\$ 398,043
Bond Discount	(119,045)	-	50,355	(68,690)	(2,526)
Bond Premium	-	15,299	(1,700)	13,599	1,700
Loans Payable	2,245,681	2,186,047	(130,616)	4,301,112	202,313
Total Long-term Liabilities	<u>\$ 9,865,336</u>	<u>\$ 4,981,886</u>	<u>\$ (3,134,499)</u>	<u>\$ 11,712,723</u>	<u>\$ 599,530</u>

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2017

NOTE 4: LONG TERM LIABILITIES (CONTINUED)

An analysis of debt service requirements to maturity on the Business-Type Activities obligations is as follows:

Years Ended December 31:	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
2018	\$ 600,356	\$ 271,465	\$ 871,821
2019	674,533	262,958	937,491
2020	684,945	250,556	935,501
2021	693,417	237,577	930,994
2022	711,433	224,441	935,871
2023-2027	3,726,178	931,681	4,657,859
2028-2032	3,097,209	466,221	3,563,430
2033-2037	695,334	222,929	918,263
2038-2042	607,770	121,381	729,151
2043-2045	276,639	15,718	292,357
	<u>\$11,767,814</u>	<u>\$3,004,927</u>	<u>\$14,772,741</u>

2010	\$2,959,726	PennVest Loan with principal due through 2032. Interest rates for the first five years are 1.278% and after are 1.772%. The loan is for a Water System Improvement Project and has a guaranty by Steelton Borough.	\$2,115,065
2015	\$5,109,344	General Obligation Bonds Series of 2015 with principal due annually through December 1, 2044 with interest due semi-annually with rates ranging from 0.35% to 3.75%. The proceeds of the bonds were used for capital projects and to refund outstanding issuances.	\$4,933,559
2017	\$2,186,047	PennVest Loan with principal due through 2032. Interest rates for the first five years are 1.644% and after are 2.129%. The loan is for a Clearwell Improvement Project and is guaranteed by Steelton Borough.	\$2,186,047
2017	\$2,780,540	General Obligation Bonds Series of 2017 with principal due annually through December 1, 2025 with interest due semi-annually with interest rates ranging from 0.800% to 2.125%. The proceeds of the bonds were used to refund outstanding issuances.	<u>\$2,533,143</u>
Total Long-Term Debt			<u>\$11,767,814</u>

In October 2017, the Borough issued General Obligation Bonds Series of 2017, in the amount of \$6,860,000. The Authority's portion of the outstanding bonds was \$2,780,450. The proceeds of the bond were used to currently refund the General Obligation Bonds Series of 2012. The Authority's portion of the bonds were issued at a premium in the amount of \$15,299 and paid issuance costs of \$60,365. The refunding transactions resulted in an estimated cash flow savings of \$84,640 for the Authority and an estimated economic gain of \$84,227.

STEELTON BOROUGH AUTHORITY
(COMPONENT UNIT OF THE BOROUGH OF STEELTON)
NOTES TO THE FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)
DECEMBER 31, 2017

NOTE 4: LONG TERM LIABILITIES (CONTINUED)

In January 2017, the Authority issued the Clearwell Improvement Project PennVest Loan, in the amount of \$2,667,300. As of December 31, 2017 the Authority drew down proceeds of \$2,186,047. The proceeds of the bond were for the Clearwell Improvement Project.

NOTE 5: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions in insurance coverages during 2017. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 6: ECONOMIC DEPENDENCY

One major customer of the Authority accounted for 56% of water sales.

NOTE 7: MANAGEMENT AGREEMENT

The Authority entered into a management agreement with the Borough to manage the day-to-day operations of the water system to include repair, maintenance, and administration. The Authority owns and is responsible for the management of and charges for water services. The power of the Authority is exercised by the Board composed of five members, appointed by the Borough Council.

NOTE 8: COMMITMENTS AND CONTINGENCIES

The Pennsylvania Local Debt Act (the "Act") permits local governments to extend nonexchange financial guarantees on certain debt issued by entities located within the government's physical boundaries. The Borough issued General Obligation Bonds Series of 2015 in the amount of \$6,145,000 and General Obligation Bonds Series of 2017 in the amount of \$6,860,000. A portion of the debt is recorded as an obligation of the Steelton Borough Authority. The Borough also guarantees the Authority's 2010 Note and 2016 Note with Pennvest. The full faith, credit and taxing power of the Borough is pledged to redeem these notes and bonds if the revenues from water fees are insufficient to meet the obligations. The Borough has not been called on to make any payments on the debt. See Note 4 for specific information and balances outstanding related to these debt issues.

NOTE 9: SUBSEQUENT EVENT

In March of 2018, the Board approved the request for proposal to explore the potential sale of the Steelton Borough Authority ("Authority") water systems.