

CITY OF YORK SEWER AUTHORITY
(A Component Unit of the City of York, Pennsylvania)

ANNUAL FINANCIAL REPORT

Years Ended December 31, 2017 and 2016



Certified Public Accountants and Business Consultants

CITY OF YORK SEWER AUTHORITY
(A Component Unit of the City of York, Pennsylvania)

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the City of York Sewer Authority (a component unit of the City of York, Pennsylvania), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The City of York Sewer Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of York Sewer Authority as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Other Matters

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.

Maillie LLP

Oaks, Pennsylvania
June 25, 2019

CITY OF YORK SEWER AUTHORITY
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STATEMENTS OF NET POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 3,140	\$ 31,139
Restricted assets:		
Cash and cash equivalents	9,778,251	10,616,208
Net investment in direct financing lease	<u>38,362,814</u>	<u>43,694,127</u>
Total Assets	<u>48,144,205</u>	<u>54,341,474</u>
Liabilities		
Accounts payable	17,787	12,200
Liabilities payable from restricted assets:		
Accounts payable	67,960	-
Funds held on behalf of the City of York	5,972,675	6,521,720
Bonds payable:		
Due within one year	3,712,833	3,611,313
Due in more than one year	<u>34,649,981</u>	<u>40,082,814</u>
Total Liabilities	<u>44,421,236</u>	<u>50,228,047</u>
Net Position		
Restricted for:		
Debt service	3,536	1,701
Construction	3,718,380	4,092,788
Unrestricted	<u>1,053</u>	<u>18,938</u>
Total Net Position	<u>\$ 3,722,969</u>	<u>\$ 4,113,427</u>

See accompanying notes to basic financial statements.

CITY OF YORK SEWER AUTHORITY

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
<u>Lease investment income</u>	<u>\$ 1,878,445</u>	<u>\$ 2,065,646</u>
Total operating revenues	<u>1,878,445</u>	<u>2,065,646</u>
Operating Expenses:		
<u>Interest expense</u>	<u>1,762,074</u>	<u>1,929,158</u>
<u>Professional services</u>	<u>22,869</u>	<u>7,534</u>
<u>Miscellaneous expense</u>	<u>15,850</u>	<u>21,068</u>
Total operating expenses	<u>1,800,793</u>	<u>1,957,760</u>
Operating Income	<u>77,652</u>	<u>107,886</u>
Non-Operating Revenues (Expenses):		
<u>Investment income</u>	<u>42,468</u>	<u>13,717</u>
<u>Miscellaneous income</u>	<u>-</u>	<u>20,448</u>
<u>Transfers to City of York</u>	<u>(510,578)</u>	<u>(69,338)</u>
Total non-operating revenues (expenses)	<u>(468,110)</u>	<u>(35,173)</u>
Change in Net Position	<u>(390,458)</u>	<u>72,713</u>
Net Position:		
<u>Beginning of year</u>	<u>4,113,427</u>	<u>4,040,714</u>
End of year	<u><u>\$ 3,722,969</u></u>	<u><u>\$ 4,113,427</u></u>

See accompanying notes to basic financial statements.

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STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Cash paid for administrative expenses	\$ (33,132)	\$ (30,527)
Net cash used in operating activities	<u>(33,132)</u>	<u>(30,527)</u>
Cash Flows From Investing Activities:		
Sales of investment securities	-	5,929,255
Cash received from others	-	20,448
Interest received	42,468	13,717
Net cash provided by investing activities	<u>42,468</u>	<u>5,963,420</u>
Cash Flows From Capital and Related Financing Activities:		
Transfers to City of York	(72,127)	(69,338)
Payments received on investment in direct financing lease	4,936,546	5,666,951
Transfers from restricted investment accounts	72,127	69,338
Capital assets purchased	(438,451)	-
Principal paid on revenue bonds	(3,611,313)	(4,139,930)
Interest paid on revenue bonds	(1,762,074)	(1,693,999)
Net cash used in capital and related financing activities	<u>(875,292)</u>	<u>(166,978)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(865,956)	5,765,915
Cash and Cash Equivalents:		
Beginning of year	<u>10,647,347</u>	<u>4,881,432</u>
End of year	<u>\$ 9,781,391</u>	<u>\$ 10,647,347</u>
Reconciliation of Operating Income to Net Cash Used in Operating Activities:		
Operating income	\$ 77,652	\$ 107,886
Adjustments to reconcile operating income to net cash used in operating activities:		
Interest expense	1,762,074	1,929,158
Lease investment income	(1,878,445)	(2,065,646)
Changes in assets and liabilities:		
Accounts payable	5,587	(1,925)
Total adjustments	<u>(110,784)</u>	<u>(138,413)</u>
Net cash used in operating activities	<u>\$ (33,132)</u>	<u>\$ (30,527)</u>
Non-Cash Capital and Related Financing Activities:		
Principal accretion of revenue bonds	<u>\$ -</u>	<u>\$ 235,159</u>

See accompanying notes to basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Summary of Significant Accounting Policies

Purpose

The City of York Sewer Authority (Authority) was incorporated November 27, 1950, under the provisions of the Municipality Authorities Act of 1945, as amended (Act), for all the purposes authorized by the Act and shall have and exercise all powers granted to such Authorities under the Act. Through December 31, 2017, its operations have been primarily to acquire, construct, improve, and lease sewer systems and sewage treatment works.

Reporting Entity

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

The Authority's financial statements are blended with the City's sewer fund and accounted for within the sewer fund, an Enterprise Fund in the City's basic financial statements.

Basis of Accounting and Presentation

The accounting records of the Authority are maintained on the accrual basis and its operations are accounted for as an enterprise fund. Enterprise funds are used to account for activities similar to those found in the private sector where the determination of net income is necessary for sound financial administration. Costs of construction, debt reduction, and Authority administration are financed or recovered through lease rentals received from the City and income on investments held by the Authority.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenue of the Authority is lease rental income. Operating expenses include the interest expense of the debt and administrative

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expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position. Net position (i.e., total assets net of total liabilities) is segregated into “restricted for debt service and construction” and “unrestricted” components.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Authority considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Investments

In accordance with the terms of the trust indentures securing the bonded debt, monies of the Authority are accounted for in various funds, segregated for specific use and for the security of the bondholders and, except for the operating account which is directly maintained by the Authority, are maintained by an independent trustee.

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

Restricted Assets

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

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Funds Held on Behalf of the City

In accordance with the Lease, as referred to in Note 4, the City shall receive credits against minimum annual rentals for (1) net income of the Authority from its real property rentals, not part of the Sewer System, (2) excess funds from the debt service reserve funds, and (3) income from debt service funds, clearing funds, and sinking funds. The balance of unapplied credits as well as the balance of the debt service reserve fund comprise the liability due to the City as of December 31, 2017 and 2016.

Net Position

Net position comprises the various net earnings from operating and non-operating revenues and expenses. Net position is classified in the following two components: restricted for debt service and construction; and unrestricted net position. Restricted for debt service and construction consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net position not included in the above categories.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Transfers to City of York

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts and disclosures. Actual results could differ from those estimates.

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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. The Authority purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Pending Governmental Accounting Standards Board (GASB) Statements

In May of 2017, the GASB issued Statement No. 86, "*Certain Debt Extinguishment Issues.*" This Statement improves consistency in accounting and financial reporting for certain debt extinguishments. The provisions of GASB Statement No. 86 are effective for the Authority's December 31, 2018 financial statements.

In June of 2017, the GASB issued Statement No. 87, "*Leases.*" This Statement improves the accounting and financial reporting for leases. The provisions of GASB Statement No. 87 are effective for the Authority's December 31, 2020 financial statements.

In May of 2017, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.*" This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of GASB Statement No. 88 are effective for the Authority's December 31, 2019 financial statements.

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

2. Deposits and Investments

The Act provides for investment of public funds in certain authorized investment types including U.S. Treasury bills, other short-term U.S. government obligations, short-term commercial paper issued by a public corporation, banker's acceptances, and insured or collateralized time deposits and certificates of deposit. The Act also allows pooling of governmental funds for investment purposes.

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The deposit and investment policy of the Authority adheres to state statutes, prudent business practices, and the applicable trust indentures. The Authority deposits cash in local financial institutions.

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2017, the Authority's deposit balance was as follows:

Cash and cash equivalents		
per financial statements:		
Unrestricted	\$	3,140
Restricted		9,778,251
		9,781,391
Less money market funds		(9,778,251)
Total deposits	\$	3,140

The full balance of \$3,140 was covered by federal depository insurance as of December 31, 2017 and is presented as cash and cash equivalents on the statement of net position. The remaining balance of \$9,778,251 was invested in money market funds as of December 31, 2017 and is presented as restricted cash and cash equivalents on the statement of net position.

These money market funds are described in further detail below.

Investments

The Authority's investment in money market funds, totaling \$9,778,251, is considered Level 1 based on quoted market prices at December 31, 2017.

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

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Concentration of credit risk – The Authority places no limit on the amount the Authority may invest in any one issuer.

Credit risk – The Authority does not have a formal policy that would limit its investment choices with regard to credit risk. At December 31, 2017, the money market funds were rated AAAM by Standard & Poor's.

Interest rate risk – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2017, the Authority's money market funds had a weighted average maturity of less than one year.

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3. Bonds Payable

The Authority has issued revenue bonds to finance various projects and refundings. A schedule of the Authority's bonds follows:

	Issue Amount	Maturity	Interest Rate	Purpose
Guaranteed Sewer Revenue Bonds - Series of 2008	\$10,000,000	2022	2.94%	To: 1) finance capitalized interest; 2) fund a deposit to the debt service reserve fund; 3) plan, design, and construction of additions, improvements, renovations, and extraordinary repairs to the various buildings and facilities of the Authority; 4) pay the costs and expenses related to the issuance of Bonds.
Guaranteed Sewer Revenue Bonds - Series of 2010	\$22,745,000	2027	4.5-5.00%	To: 1) finance projects of the Authority; 2) fund a deposit to the debt service reserve fund; 3) capitalize interest on the Bonds through December 1, 2010; 4) pay the costs and expenses related to the issuance of the Bonds.
Guaranteed Sewer Revenue Bonds - Series A of 2010	\$10,540,000	2019	2.5-4.00%	To: 1) currently refund the Guaranteed Sewer Revenue Bonds, Series of 2007; 2) fund a debt service reserve fund; 3) pay the costs and expenses related to the issuance of the Bonds.
Guaranteed Sewer Revenue Bonds - Series of 2011	\$1,500,000	2021	1.00%	For utilization, development, and construction of alternative and lean energy projects.
Guaranteed Sewer Revenue Bonds - Series of 2017	\$21,025,000	2027	1.5-5.00%	To advance refund the Guaranteed Sewer Revenue Bonds, Series of 2010, and pay the costs and expenses related to the issuance of the Bonds.

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Long-term liability activity for the year ended December 31, 2017 was as follows:

	Beginning of Year	Additions	Retirements	Accretion	End of Year	Current Portion
Revenue Bonds	\$ 43,694,127	\$ 21,025,000	\$ (26,356,313)	\$ -	\$ 38,362,814	\$ 3,712,833

Long-term liability activity for the year ended December 31, 2016 was as follows:

	Beginning of Year	Additions	Retirements	Accretion	End of Year	Current Portion
Revenue Bonds	\$ 47,598,898	\$ -	\$ (4,139,930)	\$ 235,159	\$ 43,694,127	\$ 3,611,313

The following table presents annual principal and interest payments for the Guaranteed Sewer Revenue Bonds – Series of 2008 at December 31, 2017:

Years Ending December 31,	Principal	Interest	Total
2018	\$ -	\$ 294,000	\$ 294,000
2019	445,000	294,000	739,000
2020	3,775,000	280,917	4,055,917
2021	3,925,000	169,932	4,094,932
2022	1,855,000	54,537	1,909,537
	<u>\$ 10,000,000</u>	<u>\$ 1,093,386</u>	<u>\$ 11,093,386</u>

The following table presents annual principal and interest payments for the Guaranteed Sewer Revenue Bonds – Series A of 2010 at December 31, 2017:

Years Ending December 31,	Principal	Interest	Total
2018	\$ 3,555,000	\$ 205,775	\$ 3,760,775
2019	3,215,000	96,450	3,311,450
	<u>\$ 6,770,000</u>	<u>\$ 302,225</u>	<u>\$ 7,072,225</u>

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The following table presents annual principal and interest payments for the Guaranteed Sewer Revenue Bonds – Series of 2011 at December 31, 2017:

Years Ending December 31,	Principal	Interest	Total
2018	\$ 152,833	\$ 4,980	\$ 157,813
2019	154,368	3,445	157,813
2020	155,919	1,894	157,813
2021	104,694	516	105,210
	<u>\$ 567,814</u>	<u>\$ 10,835</u>	<u>\$ 578,649</u>

The following table presents annual principal and interest payments for the Guaranteed Sewer Revenue Bonds – Series of 2017 (Series of 2017 Bonds) at December 31, 2017:

Years Ending December 31,	Principal	Interest	Total
2018	\$ 5,000	\$ 953,596	\$ 958,596
2019	5,000	1,030,840	1,035,840
2020	5,000	1,030,750	1,035,750
2021	5,000	1,030,650	1,035,650
2022	1,970,000	1,030,550	3,000,550
2023-2027	19,035,000	2,669,250	21,704,250
	<u>\$ 21,025,000</u>	<u>\$ 7,745,636</u>	<u>\$ 28,770,636</u>

The Series of 2017 Bonds were issued to advance refund the Guaranteed Sewer Revenue Bonds, Series of 2010. The Authority completed the advance refunding to reduce its total debt service payments by \$1,971,657 through the year 2027, which resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$1,670,827.

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4. Leases and Related Party Transactions

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

In July 2008, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2008 (Series of 2008 Bonds), in the principal amount of \$10,000,000. The Series of 2008 Bonds initially bore interest at an annual rate of 4.04%, with semi-annual payments of interest commencing on December 1, 2008. Annual payments of principal were to commence on June 1, 2019, with a final payment on December 1, 2022. In March 2011, the Authority approved a modification agreement for the Series of 2008 Bonds, which changed the interest rate to 3.75% and extended the final payment to December 1, 2025. In September 2014, the Authority approved a second modification agreement for the Series of 2008 Bonds, which changed the interest rate to 3.20% to 3.25% and shortened the final payment to December 1, 2022. In February 2017, the Authority approved a third modification agreement for the Series of 2008 Bonds, which changed the interest rate to 2.94%. Also in accordance with the third modification agreement, the Series of 2008 Bonds are subject to a prepayment fee of 2% of the principal sum being prepaid or redeemed during the period of February 10, 2017 through December 31, 2018 and 1% of the principal sum being prepaid or redeemed during the period of December 2, 2018 through December 1, 2021. Thereafter, outstanding principal is subject to prepayment without penalty. The purpose of the Series of 2008 Bonds is described in Note 3. Under this lease, the City is required to pay the Authority an amount equal to one hundred five percent (105%) of the principal, interest, and all other amounts due under the Fourth Supplemental Lease of the 1987 Bond Indenture. The City has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series of 2008 Bonds.

In August 2010, the Authority issued Guaranteed Sewer Revenue Bonds, Series A of 2010 (Series A of 2010 Bonds), in the principal amount of \$10,540,000. Semi-annual payments of interest commenced on December 1, 2010. Annual payments of principal commenced on December 1, 2014, with a final payment on December 1, 2019. The

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purpose of the Series A of 2010 Bonds is described in Note 3. Under this lease, the City is required to pay the Authority an amount equal to one hundred five percent (105%) of the principal, interest, and all other amounts due under the Sixth Supplemental Lease of the 1987 Bond Indenture. The City has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series A of 2010 Bonds.

In March 2011, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2011 (Series of 2011 Bonds), in the principal amount of \$1,500,000. Monthly payments of principal and interest commenced on September 1, 2011, with a final payment on August 1, 2021. The purpose of the Series of 2011 Bonds is described in Note 3. Under this lease, the City is required to pay the Authority an amount equal to one hundred five percent (105%) of the principal, interest, and all other amounts due under the Seventh Supplemental Lease of the 1987 Bond Indenture. The City has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series of 2011 Bonds.

In December 2017, the Authority issued the Series of 2017 Bonds, in the principal amount of \$21,025,000. Semi-annual payments of interest commence on June 1, 2018. Annual payments of principal commence on December 1, 2018, with a final payment on December 1, 2027. The purpose of the Series of 2017 Bonds is described in Note 3. Under this lease, the City is required to pay the Authority an amount equal to one hundred five percent (105%) of the principal, interest, and all other amounts due under the Thirteenth Supplemental Lease of the 1987 Bond Indenture. The City has pledged its full faith, credit, and taxing power to guarantee the debt service payments related to both principal and interest due on the Series of 2017 Bonds.

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The following is a schedule of future minimum lease payments under the lease agreements and all supplements as of December 31, 2017:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 5,429,744
2019	5,506,308
2020	5,511,954
2021	5,497,582
2022	5,155,591
2023-2027	<u>22,789,463</u>
Total minimum lease receivable	49,890,642
Less unearned interest	<u>(11,527,828)</u>
Net investment in direct financing lease receivable	<u><u>\$ 38,362,814</u></u>

5. Economic Defeasance of Guaranteed Sewer Revenue Bonds and Lease Restructuring

On July 15, 1998, the Authority entered into an escrow deposit agreement for partial defeasance of the 1990 York City Sewer Authority Bonds (1990 Bonds). \$5,000,000 was deposited into this escrow from grant money received for reimbursement of capital improvements made by the Authority. This transaction is not considered a legal defeasance. Therefore, the bonds and restricted investments are recorded in the financial statements. The 1990 Bonds matured in 2016 and were paid in full.

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6. Defeasance of Debt

The Authority has defeased certain debt by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. The trust account assets and the liability of the defeased debt are not included in the Authority's financial statements. At December 31, 2017, the following defeased debt was outstanding:

	Funds Escrowed as of December 31, 2017	Defeased Debt Outstanding as of December 31, 2017
	<u>2017</u>	<u>2017</u>
Guaranteed Sewer Revenue Bonds Series of 2010	<u>\$ 24,347,243</u>	<u>\$ 22,745,000</u>

7. Commitments and Contingencies

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

In April 2017, the Authority approved a contract for the wastewater treatment plant electrical substation #3 replacement project totaling \$1,227,203. The balance of the contract remaining at December 31, 2017 was \$936,503.

8. Subsequent Events

Subsequent to December 31, 2017, the Authority approved multiple construction and professional service contracts for sewer projects totaling approximately \$3.1 million.