

**Peters Township Sanitary Authority  
Financial Statements  
December 31, 2013 and 2012**

**Peters Township Sanitary Authority  
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**Independent Auditor's Report**

Members of the Board  
Peters Township Sanitary Authority  
McMurray, Pennsylvania

We have audited the accompanying statement of net position of Peters Township Sanitary Authority as of December 31, 2013 and 2012, 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**

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.

**Auditor's Responsibility**

Our responsibility is to express opinions 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2013 and 2012, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note I, G to the financial statements, in 2013, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 65, "Items Previously Reported as Assets and Liabilities". Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

*Hosack, Specht, Muetzl & Wood LLP*

HOSACK, SPECHT, MUETZEL & WOOD LLP  
Pittsburgh, Pennsylvania  
August 21, 2014

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

This Management's Discussion and Analysis (MDA) serves as an introduction to, and should be read in conjunction with, the accompanied audited financial statements and supplementary information.

The MDA has been prepared by the Authority's Management to supplement the independent auditor's financial report and is intended to convey to the reader management's understanding of the financial position of the Authority and to answer for the reader "Did the Authority's financial position improve or deteriorate as a result of operations during the year?"

The Authority was required to implement Statement No. 34 of the Governmental Accounting Standards Board (GASB) beginning in 2004. One objective of this statement is to increase the accountability of local and state governments. For the Authority, the most notable changes are the inclusion of the Management's Discussion and Analysis (MDA), and the recognition and depreciation of donated capital assets. A significant portion of the Authority's sewer infrastructure is installed by, and at the cost of, private land developers wishing to acquire public sewerage. At completion of the construction, the sewer extensions are dedicated to the Authority for perpetual ownership and maintenance. Prior to 2004, these developer-donated capital assets were not recognized as Authority assets on its financial statements because the Authority has no cost basis in the assets. The assets, however, are infrastructure which must be maintained by the Authority, and presumably, replaced someday at the end of their useful life.

### **Description of the Organization**

Peters Township Sanitary Authority, a municipal corporation organized under the provision of the Municipal Authorities Act of 1945 as amended, was incorporated on March 20, 1964 and its corporate life currently extends until August 1, 2024. The Authority was created for the purpose of providing and maintaining a sanitary sewer collection, conveyance, and treatment systems for the western portion of Peters Township.

The sewer system provides sewerage service to Chapter 94 Reports customers in the following areas in the Township: Brush Run Service Area, which currently serves 4,003 customers within 6.5 square miles of drainage area; Donaldson's Crossroads Service Area, which currently serves 1,927 customers within 3.0 square miles of drainage area; and Marella Manor Service Area (ALCOSAN/Upper St. Clair), which serves 82 customers.

The sewerage system is comprised of the Brush Run Water Pollution Control Plant (BRWPCP) with a design flow of 2.0 million gallons per day (MGD), with approximately 84 miles of sewers, and the Donaldson's Crossroads Water Pollution Control Plan (DCWPCP) with a design flow of 1.2 MGD and approximately 45 miles of sewer. The Marella Manor Service Area has approximately 1.5 miles of sewers and the wastewater receives treatment in the ALCOSAN system.

### **Introduction of Annual Financial Statements**

An authority operates much like a private business providing services, and as such, the financial statements of the Authority report information using the full accrual basis of accounting. This discussion and analysis provides an introduction to and analysis of the financial statements audited by our independent auditor.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

**Introduction of Annual Financial Statements (Cont'd)**

The financial statements are comprised of two components: the financial statements and notes to the financial statements that explain in more detail the information presented in the financial statements. The financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows. These statements provide both long-term and short-term information about the Authority's overall financial status.

The statement of net position (balance sheet) presents the financial position of the Authority on a historical cost basis. This statement presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. The statement of net position provides information about the nature and the amounts of investments in resources (i.e. assets, including infrastructure assets) and the Authority's obligations to creditors (liabilities). Over time, increases and decreases in net position provide an indication of whether the financial position of the Authority is improving or deteriorating. Net position alone, however, cannot provide a complete picture of the position of the Authority. Other factors should be considered, such as changes in economic conditions, residential and commercial growth trends, and changes in legislation governing the Authority's operations, in order to understand the true position.

The statement of revenues, expenses, and changes in net position accounts for the current year's revenues and expenses, including current year depreciation expense, with the difference presented as changes in net assets. This financial statement is a measure of the Authority's operations over the past year. A positive change in net position indicates the Authority's charges for services recovered all of the year's operating expenses, and excess revenue was available for funding its capital improvement plan.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, along with events occurring after December 31, 2013, which would have a significant financial or operational impact upon the Authority, if any.

The financial statements were prepared by the Authority's management staff from its detailed accounting records and were audited and adjusted, if material, during the annual independent external audit process.

**Financial Analysis of the Authority**

In the opinion of management, the Authority's financial condition remained strong at year end with adequate liquid assets, a reliable cash flow, a well-organized capital improvement plan and reliable treatment plants and sewer systems to meet demand and provide for customer growth. The statements are summarized below with brief analyses which support the Authority's position.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

**Statement of Net Position**

In order to comply with GASB Statement No. 34, the Authority updated its fixed capital asset inventory in 2004, and expanded it to include donated assets, primarily developer donated sewer extensions. The treatment plant asset inventory update was prepared by a consultant, while the sewer system inventory was prepared by the Authority staff using its Geographical Information System (GIS) and historical acquisition data. The capital assets inventory is updated annually in conjunction with the annual audit.

Table 1  
Condensed Summary of Net Position

	<u>December 31, 2013</u>	<u>December 31, 2012</u> (Restated)	<u>Dollar Change</u>
Current Assets, Restricted	\$ 4,949,494	\$ 4,663,407	\$ 286,087
Capital Assets and Other			
Long-Term Assets	<u>24,859,102</u>	<u>25,290,770</u>	<u>(431,668)</u>
Total Assets	<u>29,808,596</u>	<u>29,954,177</u>	<u>(145,581)</u>
Deferred Outflows of Resources	<u>-</u>	<u>33,771</u>	<u>(33,771)</u>
Current Liabilities, Restricted	1,051,164	1,102,936	(51,772)
Long-Term Liabilities	<u>2,198,673</u>	<u>2,665,848</u>	<u>(467,175)</u>
Total Liabilities	<u>3,249,837</u>	<u>3,768,784</u>	<u>(518,947)</u>
Invested in Capital Assets	22,160,165	21,859,878	300,287
Restricted Net Position	850,371	924,755	(74,384)
Unrestricted Net Position	<u>3,548,223</u>	<u>3,434,531</u>	<u>113,692</u>
Total Net Position	<u>\$26,558,759</u>	<u>\$26,219,164</u>	<u>\$ 339,595</u>

**Changes in Net Position**

A significant portion of the assets of the Authority are invested in capital assets (property, treatment plants, equipment, and sewer system). The current assets are mostly cash accounts and accounts receivable due from customers. The Authority's total net position increased by \$339,595, which is attributed to the net effect of an increase of cash accounts and the completion of a major capital project and payments of debt obligations.

An increase of net position generally indicates an improving financial condition representing the "net worth" of an organization.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

**Capital Assets and Debt Administration**

Capital Assets

As of December 31, 2013, the Authority's investment in capital assets amounted to \$24,721,500 (Table 1), net of accumulated depreciation. The Authority uses its capital assets to provide wastewater treatment and disposal services. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources (charges for services), since the capital assets themselves are not intended to be used to liquidate these liabilities. Since the Authority relies on its capital assets for its source of revenue, maintaining these capital assets in proper working condition and planning for their rehabilitation or replacement at the end of their useful life is crucial to the long-term financial condition of the Authority. The Authority has a well-defined ten-year capital improvement plan to budget for the timely rehabilitation and replacement of these capital assets. The plan is updated annually in conjunction with the operating budget. For 2013, a total of \$930,604 of improvements was planned, with \$324,520 actually expended. Major capital improvements included:

- Continuation of design to upgrade and expand its Donaldson's Crossroads Water Pollution Control Plant
- Completed application of the Brush Run Water Pollution Control Plant NPDES permit renewal
- Sewer Projects Initiated and Completed
  - Rt. 19 Valleybrook Realignment, continuation
  - Valley View Extension - Component B & C - Completed project
  - Completion of Friar Lane Pilot Program for wet weather issues

The Authority funds its capital improvement plan by a self-imposed restriction of the use of its tapping fee revenue and other non-operating revenue to the replacement or rehabilitation of infrastructure assets as they approach the end of their useful life, or construction of expanded facilities. When necessary, funds are borrowed and grants are aggressively sought. This policy provides for the timely replacement of infrastructure assets, a steady increase in net asset value, as well as minimization of reliance on borrowed funds.

Debt Administration

In February 2009, the Authority issued Sewer Revenue Bonds Series of 2009. Proceeds of that issue were used to refund Series of 2003 bonds, construction of a new administration building and Brush Run Treatment Plant improvements. In 2004, the Authority obtained a Pennsylvania low interest loan (PENNVEST Loan) for the Ivy Lane Sewer Line Extension Project. In 2012, the Authority obtained a bank loan for the Valley View Sewer Line Extension Project. Total indebtedness outstanding at December 31, 2013 amounted to \$2.56 million. Included in this amount are \$1.76 million of revenue bonds and two outstanding notes for sewer extension projects in the amount of \$235,288 and \$567,517, respectively. More information on debt can be found in the notes to the financial statements.



**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

**Rate Covenant**

In its sewer revenue bond indenture, the Authority covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Authority, together with other income, that will yield annual net earnings for the fiscal year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments for all bonds outstanding. The rate covenant in the bond indenture obligates the Authority to review rates not less than once a year and to revise such rates and charges as necessary to meet the debt service coverage test. The Authority further covenants in the bond resolution the following: that it will maintain rates and charges that are at all times sufficient to provide for the payment of the bonds; to maintain the debt service funds, debt service reserve funds and other related funding instruments related to the debt of the system; and to provide for the payment of administrative and operational expenses of the system, preserving the system in good repair and working order. The Authority has met coverage requirements and the actual calculations for 2013 and 2012 were 154% and 177%, respectively.

**Debt Coverage Ratio**

One area that demonstrates the Authority's financial strength and future borrowing capacity is seen in its debt coverage ratio, which is 1.2. The major criteria in this calculation is that all estimated future net earnings of the system must be at least 1.10 times the highest combined debt service requirement. The Sewer Revenue Bond Series 2009 has a Moody's ratings of "Aa2" with insurance. The Authority has an "A3" rating without insurance. It was an economic decision to obtain the insurance, which improved the Authority's rating resulting in substantial interest savings. The insurance was obtained from Assured Guaranty. On April 23, 2010, Moody's upgraded the Bond's rating to "A1".

Table 2  
Debt Coverage Ratio

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Total Revenues (including tapping fees and excluding grant proceeds)	\$3,173,957	\$3,845,172
Total Expenses (excluding depreciation)	<u>2,201,519</u>	<u>1,942,666</u>
Net Earnings	<u>\$ 972,438</u>	<u>\$1,902,506</u>
Maximum Annual Debt Service	<u>\$ 824,462</u>	<u>\$ 773,810</u>
Debt Coverage Ratio	<u>1.2</u>	<u>2.45</u>

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

**Statement of Revenues, Expenses and Changes in Net Position**

While the statement of net position reflects the change in financial position of net assets, this statement is a measure of current year operations and provides the answer as to the nature and source of changes in net position.

Table 3  
Condensed Summary of Revenues, Expenses and Changes in Net Position

	<u>December 31, 2013</u>	<u>December 31, 2012</u> (Restated)	<u>% Change</u>
Operating Revenues			
Charges for Services	\$ 2,960,828	\$ 2,924,796	
Miscellaneous	<u>63,502</u>	<u>74,512</u>	
Total Operating Revenues	3,024,330	2,999,308	0.83%
Non-Operating Revenues			
Tap-In Fees	121,157	412,581	
Interest	<u>28,470</u>	<u>48,283</u>	
	149,627	460,864	(67.5)%
Grant Proceeds	<u>-</u>	<u>736,698</u>	
Total Non-Operating Revenues	<u>149,627</u>	<u>1,197,562</u>	(87.5)%
Total Revenues	<u>3,173,957</u>	<u>4,196,870</u>	(24.3)%
Operating Expenses			
Treatment	765,802	731,811	
Collection	464,040	406,563	
Administration	<u>702,540</u>	<u>625,152</u>	
Total Operating Expenses	1,932,382	1,763,526	9.5%
Non-Operating Expenses	<u>269,136</u>	<u>156,803</u>	71.6%
Total Expenses	2,201,518	1,920,329	14.6%
Depreciation	<u>646,724</u>	<u>637,048</u>	
Total Expenses	<u>2,848,242</u>	<u>2,557,377</u>	11.3%

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

**Statement of Revenues, Expenses and Changes in Net Position (Cont'd)**

Table 3 (Cont'd)  
Condensed Summary of Revenues, Expenses and Changes in Net Position (Cont'd)

	<u>December 31, 2013</u>	<u>December 31, 2012</u> (Restated)	<u>% Change</u>
Net Income before Capital Contributions	\$ 325,715	\$ 1,639,493	
Capital Contributions - Current	<u>13,880</u>	<u>94,340</u>	
Change in Net Position	339,595	1,733,833	
Beginning Net Position	<u>26,219,164</u>	<u>24,485,331</u>	
Ending Net Position	<u>\$26,558,759</u>	<u>\$26,219,164</u>	1.3%

Revenues

The Authority's operating revenue is generated from its charges for services. Sewer rentals are based upon the number of customers connected and the volume of potable water consumed by the customers. Non-operating revenues are generated from tapping fees collected as new customers connect and interest earned on investment of surplus and restricted funds.

Operating Revenues

The 2013 operating revenues were \$3.0 million, an increase of \$25,000 over year 2012, or 0.8%. However, the total operating revenues were under budget for 2013, with \$134,300 collected under budget projections. This variance was attributed to a significant decrease in residential water consumption as result of a usually wet spring and early summer, and over estimating the 2013 budgeted consumption. The 2013 consumption was based on the 2012 actual consumption; however, consideration was not made for the exceptionally dry, hot summer of 2012. In 2012, operating revenues were \$2.9 million, which was 0.005% collected over budget projections.

Non-Operating Revenue

Tapping fee revenue was \$121,157 and \$412,581 in 2013 and 2012, respectively. The 2013 revenues were \$12,500 under budget, essentially on target. There were 29 tap-in fees, and 2 special purpose tap-in fees collected in 2013.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

**Statement of Revenues, Expenses and Changes in Net Position (Cont'd)**

Revenues (Cont'd)

Non-Operating Revenue (Cont'd)

Interest revenue was \$28,470 and \$48,283 in 2013 and 2012, respectively. Interest received was 27% over budget projections. However, from year 2012 to 2013 there was a decrease of 41%. This was attributed to a long-term high yield security that matured in 2013. The 2012 budget projections for interest received was 1.8% under projections.

Expenses

The Authority's operating expenses are a function of the hydraulic and organic load its customers exert on the system, the employee staffing necessary to properly operate and maintain the facilities, and the miles of sewer line requiring maintenance. Non-operating expenses are interest and amortization expenses associated with debt.

Operating Expenses

The 2013 operating expenses, exclusive of depreciation expense, were \$1.932 million, an increase of \$168,857 over 2012, which were \$1.764 million. This increase was attributed to filling the vacant maintenance position full-time, the GASB change in the accounting for the amortization of bond issuance costs, and the adjustment to accurately record prior year's accounts receivables. Total operating expense projections for 2013 were \$329,000 under budget and for 2012 under budget by \$391,953. The 2013 under projected are directly attributed to the budgeted equipment replacement allowance, which is a line item budgeted for replacements in the system and the budgeted 10% debt service coverage not expended.

Depreciation Expense

The depreciation expense for 2012 and 2011 is \$646,724 and \$637,048, respectively. This is an increase of 1.5% which is attributed to a full year of depreciation of the assets that went into service mid to end year.

Non-Operating Expenses

The 2013 non-operating expenses were \$269,136 which is an increase of \$112,333 from 2012. This increase is attributed to a full year of interest expense for the 2012 Valley View sewer project bank loan, an adjustment made to the unbilled sewer charges to more accurately reflect the current minimum charge within the billing cycles for the current year, and the arbitrage rebate liability due on the 1998 tax-exempt Sewer Revenue Bonds. The final arbitrage calculation as performed on the 1998 Bonds in accordance with IRS regulations and the excess earnings over the calculate arbitrage yield resulted in a rebate liability.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

**Results of Operations**

As can be seen in Table 3, 2013 revenues were sufficient to meet all operating expenses, with a net income (before capital contributions) of \$1,062,050. Ideally, this net income would approach the annual depreciation expense, as it did in 2012. By doing so, the revenue surplus generated adequate funds for the future rehabilitation and replacement of the capital assets.

While the Authority does not budget directly for the depreciation expense, it does include in its operating budget a line item for "equipment replacement allowance". The combination of non-operating revenue and equipment replacement allowance will normally approximate the depreciation expense.

The Authority's policy of restricting the use of non-operating revenues to re-investment in capital assets along with budgeting for future asset replacement (depreciation), is a cornerstone of the Authority's long-term strategic plan. The current user pays for all operation and maintenance costs, including asset preservation, debt retirement, plus a reasonable portion of depreciation and the new user pays the maximum connection fee permitted by law for equity buy-in. These policies combined provide adequate funding of a capital improvement plan that can focus on providing the lowest life cycle costs for the maintenance and replacement of assets, with the objective of maintaining sewer use rates at affordable levels.

The preceding paragraph answers the question posed at the start of the discussion, "Did the Authority's financial position improve or deteriorate as a result of operations during the year?" In management's opinion, the Authority's financial position improved as a result of operations during 2013.

There is, however, a second question that must be asked to fully evaluate the financial position. That is, "Are the Authority's sewer use rates affordable?" Affordability is important because charges for services cannot be raised to unlimited amounts. If the existing charges for services are affordable, over time there is room to increase charges, to invest in technology in order to improve productivity, and thereby, lower the overall total life cycle cost of service to our customers.

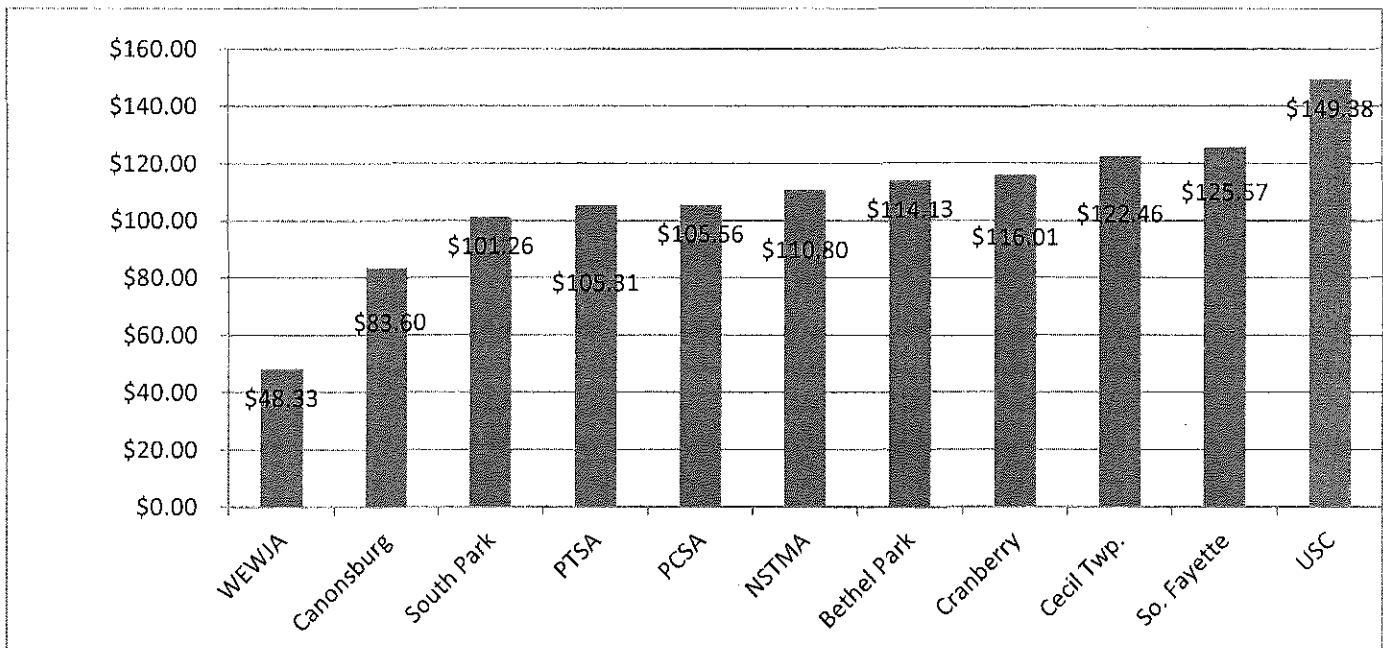
Any discussion and analysis regarding the Authority's financial position cannot be considered complete without review of cost of service to our customers and comparison of the Authority's cost with other customers in surrounding areas. This is important because the ability of the Authority to meet the future challenges of customers' service expectations in an ever-increasingly regulatory environment, while replacing infrastructure assets at the end of their useful lives, will largely be dependent upon the ability to raise user fees when necessary, while still being considered relatively affordable. Affordability is a subjective evaluation and is best established by what other users are willing to pay for sewerage service.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2013**

**Results of Operations (Cont'd)**

The benchmarks selected for comparison are the sewerage rates charged by nearby communities of similar size. As indicated in Table 4 below, the Authority's charge for annual sewer service in 2013 ranks eighth lowest of eleven nearby communities; with an annual average charge of \$420. This comparison indicates the Authority's charges for service are typical of sewage service in the general area, and therefore, could be considered relatively affordable.

Table 4  
Comparison of Local Sewer Rates  
October 2013 Data for Other Communities  
Based on 14,250 Gallons/Quarter



**Statement of Cash Flow Activity**

The following table depicts the Authority's ability to generate net operating cash. Net cash provided by operating activities (excludes all non-operating revenue, tapping fee, interest, etc.) is shown both in total dollars and as a percentage of operating revenues.

	December 31, 2013	December 31, 2012
Total Operating Revenue	\$3,024,330	\$2,999,308
Net Cash Provided by Operations	1,291,174	1,144,762
Net Operating Cash as a Percentage of Operating Revenue	43%	38%

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
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**Statement of Cash Flow Activity (Cont'd)**

Net operating cash increased by (5%) from 2012, which is attributed to more cash received from customers. The percentage of 43% net cash provided by operations is an indication that the Authority's cash flow is sufficient, obligations were met, and there is a reserve of cash remaining for debt principle payments, the ability to meet future obligations in a timely manner and to meet unexpected needs that may arise.

**Economic Factors and New Year's Budget/Rates**

The Authority's operating budget provides for meeting environmental regulations, planning for future growth, meeting customer expectations, servicing our debt, and providing for a safe and healthy environment for our employees.

The rate increase implemented in 2013 provided adequate revenue to meet the aforementioned requirements, and a rate adjustment was not required before the 2014 budget. The 2014 budget was adopted on December 10, 2013, providing for total revenue of \$3.3 million dollars, with \$2.6 million in operating expenses, and \$0.6 million in debt service payments. Overall, expenses are projected at an increase of 5.5% from 2013 expenses. The capital improvement budget includes \$1.0 million for planned improvements, with all 2014 planned projects funded with surplus funds from the Capital Improvement and Redemption Fund.

The significant factors considered in developing the 2014 budget included:

- The continued decline in residential water consumption due to use of energy saving appliances, and conservation efforts in general, coupled with the historic low 12-month residential water consumption of 304,000,000 gallons in 2013, which was influenced by an usually wet spring and early summer. After considering all the variables, management projected a 2.6% increase in water consumption for 2014 to 312,000,000 gallons. (However, 2014 spring and summer have been wet and cold, and therefore, this increased consumption may not be fully realized.)
- A slowly improving regional economy which should contribute to increased water consumption by non-residential customers, conservatively projected at a 1.0% increase in the 2014 budget.
- Continued slow customer growth and corresponding reduced tapping fee revenue due to the slowdown in home construction.
- A \$271,900 reduction in annual debt service beginning in 2014 from the 2009 Bond Refinancing. This \$271,900 was allocated to the Equipment Replacement Allowance budget line item to accumulate surplus funds to retire the bond issue early and to minimize the future borrowing for the Donaldson's Crossroads Water Pollution Control Plant Replacement project.

When setting the budget, the Authority considers "affordability" to its customers. The historic rule of thumb for affordability of water utilities services is 1.0% of the median household income of the customer base or lower. However, adjusting for today's increased environmental standards, the rule of thumb for affordability most often cited is 1.5%.

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**Economic Factors and New Year's Budget/Rates (Cont'd)**

The annual cost of sewerage service for the Authority's average residential customer in 2013 was \$422.00, which equates to 0.4% of the Peters Township median household income. Even when compared to the broader Pennsylvania state median household income, our annual sewer charge is only 0.8%.

**Long-Term Budget and Rate Considerations**

The Donaldson Crossroads Water Pollution Control Plant is at the end of its useful life and requires replacement. Planning for this project began in 2001 with the purchase of property for the plant expansion, following by regulatory facilities planning approval in 2011. Facility design and permitting is underway and is considered to be 70% complete. The estimated plant construction cost has increased to \$20.1 million from the planning level estimate of \$14.7 million. The combination of delaying the project until the Series 2009 Bonds can be retired in 2015, the accumulation of surplus funds to pay for all design and construction engineering expenses, and phased implementation of planned interceptor improvements, will keep rate increases to manageable levels, despite the increased construction costs.

The Authority will be aggressively purchasing a low-interest PennVest loan for the plant expansion project in the maximum available amount of \$11 million, with the \$9.1 million balance of the construction costs funded by a supplemental bond issue. Provided the Authority is successful in obtaining a PennVest loan, the projected rate increase in 2015 will be on the order of 20%. If the entire \$20.1 million is acquired through a sewer revenue bond issue, the rate increase would be on the order of 30%, placing the cost for the average residential customer at approximately \$46/month.

**Contacting the Authority's Management**

Our financial report is designed to provide our customers with a general overview of the Authority's finances and to show the Board accountability for the money it receives. If you have any questions about this report or wish to request additional financial information, please contact Mr. James Miskis, Manager, Peters Township Sanitary Authority, 111 Bell Drive, McMurray, PA 15317, 724-941-6709.



**Statements of Net Position**

**Peters Township Sanitary Authority**  
**Statements of Net Position**  
**December 31, 2013 and 2012**

ASSETS

	2013	2012 (Restated)
<b>Current Assets</b>		
Cash and Cash Equivalents		
Operating Funds	\$ 642,437	\$ 483,319
Capital Improvement and Redemption Fund	2,126,617	1,876,316
Accounts Receivable	761,033	1,107,125
Tap-In and Assessments Receivable	4,173	7,827
Inventory	24,083	24,319
Prepaid Expenses	<u>67,792</u>	<u>56,178</u>
<b>Total Current Assets</b>	<u><b>3,626,135</b></u>	<u><b>3,555,084</b></u>
<b>Restricted Assets</b>		
Cash and Cash Equivalents		
Debt Service Fund	118,234	186,213
Debt Service Reserve Fund	749,781	827
Developers' Deposit Fund	455,344	160,299
Investments		
Debt Service Reserve Fund	-	749,000
Accrued Interest Receivable	<u>-</u>	<u>11,984</u>
<b>Total Restricted Assets</b>	<u><b>1,323,359</b></u>	<u><b>1,108,323</b></u>
<b>Property, Plant and Equipment</b>		
Office Complex	1,141,545	1,141,545
Sewer Plant and Lines	31,977,097	31,963,217
Machinery and Equipment	4,241,306	4,241,306
Construction in Progress	<u>798,841</u>	<u>586,848</u>
	38,158,789	37,932,916
Accumulated Depreciation	<u>(14,112,297)</u>	<u>(13,465,573)</u>
	24,046,492	24,467,343
Land	<u>675,008</u>	<u>675,008</u>
<b>Total Property, Plant and Equipment</b>	<u><b>24,721,500</b></u>	<u><b>25,142,351</b></u>
<b>Other Assets</b>		
Tap-In and Assessments Receivable, Net of Current	<u>137,602</u>	<u>148,419</u>
<b>Total Assets</b>	<u><b>29,808,596</b></u>	<u><b>29,954,177</b></u>
<b>Deferred Outflows of Resources</b>		
Deferred Charge on Refunding	<u>-</u>	<u>33,771</u>

## LIABILITIES AND NET POSITION

	2013	2012 (Restated)
Current Liabilities		
Accounts Payable	\$ 70,973	\$ 115,187
Retainage Payable	11,732	30,267
Other Liabilities	28,722	51,535
Notes Payable	51,256	49,533
Sewer Revenue Bonds Payable	<u>420,000</u>	<u>675,000</u>
Total Current Liabilities	<u>582,683</u>	<u>921,522</u>
Current Liabilities Payable from Restricted Assets		
Developers' Deposit	450,838	158,145
Accrued Interest Expense	<u>17,643</u>	<u>23,269</u>
Total Current Liabilities Payable from Restricted Assets	<u>468,481</u>	<u>181,414</u>
Noncurrent Liabilities		
Revenue Bonds Payable	1,340,000	1,760,000
Less Unamortized Discount	(1,469)	(3,066)
Notes Payable	751,549	801,006
Unearned Revenue	94,672	94,672
Compensated Absences Payable	<u>13,921</u>	<u>13,236</u>
Total Noncurrent Liabilities	<u>2,198,673</u>	<u>2,665,848</u>
Total Liabilities	<u>3,249,837</u>	<u>3,768,784</u>
Net Position		
Invested in Capital Assets, Net of Related Liabilities	22,160,165	21,859,878
Restricted for Debt Service	850,371	924,755
Unrestricted	<u>3,548,223</u>	<u>3,434,531</u>
Total Net Position	<u>\$ 26,558,759</u>	<u>\$ 26,219,164</u>

See Accompanying Notes

**Peters Township Sanitary Authority  
Statements of Revenues, Expenses and  
Changes in Net Position  
Years Ended December 31, 2013 and 2012**

**Exhibit 2**

	2013	2012 (Restated)
Operating Revenues		
Charges for Services		
Sewer Service	\$ 2,960,828	\$ 2,924,796
Miscellaneous	<u>63,502</u>	<u>74,512</u>
Total Operating Revenues	<u>3,024,330</u>	<u>2,999,308</u>
Operating Expenses		
Plant and Sewer System		
Power	157,541	154,144
Water	9,427	8,857
Telephone	6,256	5,883
Supplies and Tools	129,730	97,424
Maintenance and Repairs	171,215	176,946
Uniforms	7,201	6,015
Contracted Services	34,714	38,255
Sludge Hauling	76,129	73,682
Fuel	16,667	16,163
Depreciation	610,546	599,994
Administrative		
Board Member's Expense	3,000	3,100
Billing	65,946	61,995
Rent Expense	-	935
Contracted Services	31,302	22,772
Office Supplies	22,200	18,038
Legal, Accounting and Trustee Fees	36,010	24,967
Training and Memberships	12,011	7,088
Engineering	26,971	21,556
Insurance	62,886	50,385
Hospitalization/Employee Insurance	177,723	144,163
Utilities	9,373	10,028
Payroll Taxes	58,455	54,957
Pension Costs	59,088	51,884
Depreciation	36,178	37,054
Other	27,109	21,502
Salaries		
Plant/Sewer and Administration	<u>731,428</u>	<u>692,787</u>
Total Expenses	<u>2,579,106</u>	<u>2,400,574</u>
Operating Income	445,224	598,734

**Peters Township Sanitary Authority  
Statements of Revenues, Expenses  
and Changes in Net Position  
Years Ended December 31, 2013 and 2012**

**Exhibit 2**

	2013	2012 (Restated)
Nonoperating Revenues		
Tap-In Fees	\$ 121,157	\$ 412,581
H <sub>2</sub> O PA Grant	-	351,698
County Local Share Grant	-	385,000
Interest Income		
Operating Funds	3,434	10,656
Restricted Funds	<u>25,036</u>	<u>37,627</u>
Total Nonoperating Revenues	<u>149,627</u>	<u>1,197,562</u>
Nonoperating Expenses		
Interest Expense on Bonds	64,180	79,780
Interest Expense on Notes	29,717	9,944
Arbitrage Rebate Liability	51,441	-
Unbilled Charges Estimation Adjustment	88,430	-
Loss on Disposal of Assets	-	11,764
Amortization of Bond Discount	1,597	2,219
Amortization of Loss on Defeasance	<u>33,771</u>	<u>53,096</u>
Total Nonoperating Expenses	<u>269,136</u>	<u>156,803</u>
Net Income before Capital Contributions	325,715	1,639,493
Developer Contributions to Systems	<u>13,880</u>	<u>94,340</u>
Changes in Net Position	339,595	1,733,833
Net Position - January 1,	<u>26,219,164</u>	<u>24,485,331</u>
Net Position - December 31,	<u>\$26,558,759</u>	<u>\$26,219,164</u>

See Accompanying Notes

**Peters Township Sanitary Authority**  
**Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

**Exhibit 3**

	2013	2012
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 3,281,992	\$ 2,960,941
Cash Payments to Suppliers for Goods and Services	(1,260,075)	(1,123,915)
Cash Payments to Employees for Services	<u>(730,743)</u>	<u>(692,264)</u>
Net Cash Provided by Operating Activities	<u>1,291,174</u>	<u>1,144,762</u>
Cash Flows from Noncapital Financing Activities		
Developers' Deposits - Net	<u>292,693</u>	<u>33,594</u>
Cash Flows from Capital and Related Financing Activities		
Principal Paid on Bonds	(675,000)	(665,000)
Proceeds from Notes	-	600,000
Interest Paid on Notes Payable	(29,717)	(9,944)
Principal Paid on Notes Payable	(47,734)	(21,798)
Interest Paid on Bonds	(69,806)	(84,767)
Acquisition and Construction of Capital Assets	(230,528)	(2,122,834)
Arbitrage Rebate	(51,441)	-
State and Local Grants	-	774,087
Payments on Assessments and Loans Receivable	14,471	9,503
Tap-In Fees Received	<u>101,873</u>	<u>380,090</u>
Net Cash Used for Capital and Related Financing Activities	<u>(987,882)</u>	<u>(1,140,663)</u>
Cash Flows from Investing Activities		
Interest on Investments	40,454	48,733
(Purchase) Sale of Investment Securities	<u>749,000</u>	<u>(82,000)</u>
Net Cash Provided by (Used for) Investing Activities	<u>789,454</u>	<u>(33,267)</u>
Net Increase in Cash	1,385,439	4,426
Cash and Cash Equivalents - Beginning of Year	<u>2,706,974</u>	<u>2,702,548</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,092,413</u>	<u>\$ 2,706,974</u>

**Peters Township Sanitary Authority  
Statement of Cash Flows  
Years Ended December 31, 2013 and 2012**

**Exhibit 3**

	2013	2012
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 445,224	\$ 598,734
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	646,724	637,048
Net Change in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	257,662	(42,984)
(Increase) Decrease in Inventory	236	(1,117)
(Increase) Decrease in Prepaid Expenses	(11,614)	(7,658)
Increase (Decrease) in Accounts Payable	(44,214)	(44,401)
Increase (Decrease) in Other Payables	(3,529)	4,617
Increase (Decrease) in Compensated Absences	<u>685</u>	<u>523</u>
Net Cash Provided by Operating Activities	<u>\$ 1,291,174</u>	<u>\$ 1,144,762</u>

Schedule of Noncash Investing, Capital and Financing Activities  
During the years ended December 31, 2013 and 2012, the Authority received \$13,880 and \$94,340, respectively, in developer contribution of system capital assets.

See Accompanying Notes

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note I - Summary of Significant Accounting Policies**

A. Description of Financial Statements

The statement of net position and the statements of revenues, expenses and changes in net position report information on all of the Authority's activities.

B. Reporting Entity

Peters Township Sanitary Authority is a municipal authority formed pursuant to the Municipal Authorities Act. The Authority was incorporated in 1964 to acquire, hold, construct, improve, maintain and operate, own, lease, either in the capacity of lessor or lessee, sewers, sewer systems or parts thereof and sewage treatment works. The Authority owns the Brush Run and Donaldsons Road Sewage Treatment Plants which principally serve the residents of Peters Township. The accompanying financial statements are all activities operated by the Authority.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. *The basis of accounting indicates the timing of transactions or events* for recognition in the financial statements.

The Authority's statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. Budgetary Accounting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings and certain revenues for capital projects.

All unexpended and unencumbered appropriations in the operating budget remaining at the end of the fiscal year lapse. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.



**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note I - Summary of Significant Accounting Policies (Cont'd)**

E. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the Authority are reported at fair value (generally based on quoted market prices).

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets include property, plant and equipment, and construction in progress. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

In the case of the initial capitalization of certain sewer lines, the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the Authority constructs or acquires additional capital assets each period, they are capitalized and reported at historical costs. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life.

Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value. Internal engineering costs are capitalized to the extent of direct support and contribution to construction and expansion projects. Costs of studies that directly result in specific construction projects are capitalized.

**Peters Township Sanitary Authority  
Notes to Financial Statements  
December 31, 2013 and 2012**

**Note I - Summary of Significant Accounting Policies (Cont'd)**

E. Assets, Liabilities, and Net Position (Cont'd)

4. Capital Assets (Cont'd)

Land and construction in progress are not depreciated. The other capital assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	Years
Buildings	50
Sewer Treatment Plants and Pump Stations	60
Collector Sewers and Interceptor Piping	80-100
Vehicles	5-10
Software/Computers	3-5
Office Furniture and Equipment	5-10
Machinery and Equipment	10-20

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. There was no interest capitalized in 2013 or 2012.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the 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.

6. Net Position Flow Assumption

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 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 Authority's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note I - Summary of Significant Accounting Policies (Cont'd)**

F. Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services for sewer charges. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

G. Restatement of Beginning Net Position

Peters Township Sanitary Authority adopted GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* as of January 1, 2013 and applied the statement retrospectively to the earlier period presented January 1, 2012. Beginning net position in the government-wide financial statements was restated as of January 1, 2012 as a result of the effects of applying this new statement and are summarized below.

Net Position, December 31, 2011 (previously reported)	\$24,570,634
Prior to implementation of GASBS No. 65 bond issuance costs were deferred and amortized over the life of the bonds. Under the new statement, bond issuance costs are expensed when incurred. The result is a decrease in beginning net position for unamortized bond issuance costs.	<u>(85,303)</u>
Restated Net Position, January 1, 2012	<u>\$24,485,331</u>

**Note II - Detailed Notes**

A. Deposits and Investments

Investments are stated in fair value except that U. S. Treasury and Agency obligations that have a remaining maturity of one year or less are shown at amortized costs. Fair value is based on quoted market prices. Funds are invested pursuant to the applicable trust indenture and the Municipality Authorities Act. The Municipal Authorities Act states that authorized types of investments shall be: United States Treasury Bills; short-term obligations of the United States Government or its agencies or instrumentalities; deposits in savings accounts, time deposits or share accounts of institutions insured by FDIC; obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States and the Commonwealth of Pennsylvania; shares of an investment company registered under the Investment Company

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note II - Detailed Notes (Cont'd)**

A. Deposits and Investments (Cont'd)

Act of 1940 provided the only investments of that company are in the authorized investments for Authority funds listed above. The deposit and investment policy of the Peters Township Sanitary Authority adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either their state statutes or the policy of the Authority.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in an 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. Deposits in excess of amounts covered by the Federal Deposit Insurance Corporation are collateralized in accordance with Act 72 of 1971 of the Pennsylvania State Legislature which requires the institution to pool collateral for all governments and have the collateral held by an approved custodian in the institution's name. As of December 31, 2013, \$2,397,947 of the Authority's bank balance of \$2,650,147 was exposed to custodial credit risk as follows:

Collateralized with Securities Held by the Pledging Financial Institution	<u>\$2,278,990</u>
Uninsured and Collateral Held by Pledging Bank's Agent Not in the Authority's Name	<u>\$ 118,957</u>

As of December 31, 2013, the Authority had the following investments:

Investment	Fair Value
PLGIT	\$ 591,981
Wells Fargo Advantage Gov't. Money Market Fund	<u>923,823</u>
	<u>\$1,515,804</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 Risks - The Municipal Authorities Act authorizes the types of investments allowed. These are described above. The Authority has no investment policy that would further limit its investment choices. The Authority's investments in the Pennsylvania Local Government Investment Trust (PLGIT) and the Wells Fargo Gov't. Money Market Fund were rated AAAM by Standard & Poor's.

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note II - Detailed Notes (Cont'd)**

A. Deposits and Investments (Cont'd)

Custodial Credit Risk - Deposits (Cont'd)

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

Custodial Credit Risk - For an investment custodian, 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 investments or collateral securities that are in the possession of an outside party.

Investments

The Pennsylvania Local Government Investment Trust Fund (PLGIT) was established as a common law trust, organized under laws of the Commonwealth of Pennsylvania. Shares of the trust are offered to certain Pennsylvania school districts, municipal authorities, and municipalities. The purpose of the trust is to enable such governmental units to pool their available funds for investments. The trust has the characteristics of an open end mutual fund and is not subject to credit risk classification. PLGIT is governed by an elected board of trustees who are responsible for the overall management of the trust. The trustees are elected from the several classes of local governments participating in the trust. The trust is audited annually by independent auditors. The trust operates in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The trust uses amortized cost to report net position to compute share prices. PLGIT maintains net asset value of \$1 per share. Accordingly, the fair value of the position in PLGIT is the same as the value of PLGIT shares.

B. Restricted Assets

The second supplemental Trust Indenture, dated as of September 1, 2003, and the third supplemental Trust Indenture, dated as of February 15, 2009, has mandated that the Authority set aside funds for specific purposes which are the Debt Service, Debt Service Reserve and 2009 Construction Funds. The Authority has determined to set aside funds in a Developers' Deposit Fund. These funds are referred to as Restricted Assets and are held by the Trustee or the Authority. Their purposes are as follows:

Debt Service Fund - The Authority shall pay out of the Debt Service Fund the principal and interest on the bonds then outstanding.

Debt Service Reserve Fund - This Fund shall maintain a balance which is equal to the debt service reserve requirements on the Series of 2009 Bonds. Said sum shall be required to be maintained by the Authority until such time the amount shall be increased or decreased in connection with the issuance of additional bonds.

2009 Construction Fund - The funds in the account are to be used for the payment of the costs incurred with the construction project, the acquisition and construction of a new authority building and contain improvements to the Brush Run Plant. There was no activity in this fund during the current periods.

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note II - Detailed Notes (Cont'd)**

**B. Restricted Assets (Cont'd)**

Developers' Deposit Fund - Restricted for payment of expenses incurred by the Authority associated with a specific development; funds received from developer. Any excess monies remaining after all expenses are paid are to be returned to developer.

C. No provision is made for uncollectible accounts or assessment receivables as these charges are lienable charges in the property served. Any other charges that become uncollectible are charged to expense in the year they become uncollectible.

**D. Capital Assets**

Capital asset activity for the year was as follows:

	Balance 01/01/13	Additions	Retirements	Balance 12/31/13
Capital Assets Being Depreciated				
Site Improvement	\$ 193,535	\$ -	\$ -	\$ 193,535
Sewer Plants	7,083,328	-	-	7,083,328
Office Complex	1,141,545	-	-	1,141,545
Software/Computers	104,830	-	-	104,830
Permits	47,803	-	-	47,803
Machinery and Equipment	3,614,382	-	-	3,614,382
Vehicles	474,291	-	-	474,291
Process Piping	815,770	-	-	815,770
Power Feed Mains	225,500	-	-	225,500
Collector Sewers	19,193,884	13,880	-	19,207,764
Force Mains	390,860	-	-	390,860
Interceptors	2,973,802	-	-	2,973,802
Pump Stations	<u>1,086,538</u>	<u>-</u>	<u>-</u>	<u>1,086,538</u>
	37,346,068	13,880	-	37,359,948
Accumulated Depreciation	<u>(13,465,573)</u>	<u>(646,724)</u>	<u>-</u>	<u>(14,112,297)</u>
Net Capital Assets Being Depreciated	<u>23,880,495</u>	<u>(632,844)</u>	<u>-</u>	<u>23,247,651</u>

**Peters Township Sanitary Authority  
Notes to Financial Statements  
December 31, 2013 and 2012**

**Note II - Detailed Notes (Cont'd)**

D. Capital Assets (Cont'd)

	Balance 01/01/13	Additions	Retirements	Balance 12/31/13
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 586,848	\$ 211,993	\$ -	\$ 798,841
Land	<u>675,008</u>	<u>-</u>	<u>-</u>	<u>675,008</u>
Total Capital Assets Not Being Depreciated	<u>1,261,856</u>	<u>211,993</u>	<u>-</u>	<u>1,473,849</u>
Net Total Capital Assets	<u>\$ 25,142,351</u>	<u>\$(420,851)</u>	<u>\$ -</u>	<u>\$ 24,721,500</u>

E. Bond Discount and Deferred Loss on Defeasance

The bond discount and loss on defeasance of bonds are being amortized over the life of the original bond issue.

F. Assessments and Assessment Receivable

During the year ended December 31, 2004, the Authority completed the installation of a sewer line in an area that was not sewered as required by the PA Department of Environmental Protection. The homeowners that benefitted from this sewer were assessed a fee. The fee per EDU was \$6,250, and if the owners accepted the assessment, they were given a \$1,000 discount, adjusting the assessment to \$5,250. The total assessment, was \$259,514. In addition, the Authority offered an installment plan for those owners that did not want to pay the assessment in full. The terms of the plan were payments are to be made over 216 months, including interest at 2.5%. The total amounts outstanding at December 31, 2013 and 2012 from this plan, was \$19,641 and \$27,294, respectively.

In 2012, the Authority undertook a sewer extension in the Valley View Drive Area. The affected residents were assessed a special purpose tapping fee comprised of two components: component B in the amount of \$870 and component C in the amount of \$2,330. Total revenue recognized from the fees in 2012 was \$93,670. Residents were also given the opportunity to pay these fees over a period of time. As of December 31, 2013, and 2012, \$27,450 and \$32,000 was outstanding for these fees, respectively.

In prior years, the Authority entered into installment agreements with certain property owners. The purpose was to assist the property owners with the costs of a sewer line installation and special purpose tapping fee by advancing the costs and expenses for the project. The loans will be paid back over five years, including interest. The total amount outstanding on these loans as of December 31, 2013 and 2012, was \$-0- and \$2,268, respectively.

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note II - Detailed Notes (Cont'd)**

F. Assessments and Assessment Receivable (Cont'd)

In addition to the above, the Authority also has outstanding deferred assessments receivable in the amount of \$94,684 as of December 31, 2013 and 2012. These amounts are also reported as a noncurrent liability as the revenue has not been recognized.

G. Debt Payment

1. The following are changes in debt payable for the year ended December 31, 2013:

	Balance 01/01/13	Additions	Retirements	Balance 12/31/13	Current Portion
Sewer Revenue Bonds	<u>\$2,435,000</u>	<u>\$ -</u>	<u>\$675,000</u>	<u>\$1,760,000</u>	<u>\$420,000</u>
Sewer Revenue Notes	\$ 253,251	\$ -	\$ 17,963	\$ 235,288	\$ 20,127
Notes Payable	<u>597,288</u>	<u>-</u>	<u>29,771</u>	<u>567,517</u>	<u>31,129</u>
	<u>\$ 850,539</u>	<u>\$ -</u>	<u>\$ 47,734</u>	<u>\$ 802,805</u>	<u>\$ 51,256</u>
2. Revenue Bonds					
Issue of 2009; \$4,960,000 due serially through September 1, 2017; interest rates from 2.15% to 3.3%.					<u>\$1,760,000</u>
3. Revenue Notes					
Loan approved in 2003 up to \$421,015 with the PA Infrastructure Investment Authority due in monthly installments of \$1,992 for the first sixty months including interest at 1.387%, and monthly amounts of \$2,199 for 180 months, including interest at 2.774%.					\$ 235,288
Loan dated March 2012 in amount of \$600,000; interest only due until November 30, 2012, then \$180 monthly payments of \$4,438.13 including interest at 4% is due through November 1, 2027.					<u>567,517</u>
				<u>\$ 802,805</u>	



**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note II - Detailed Notes (Cont'd)**

G. Debt Payment (Cont'd)

4. The annual requirements to amortize all debt outstanding as of December 31, 2013 are as follows:

Year Ended December 31,	Bonds Payable		Notes Payable		Totals
	Principal	Interest	Principal	Interest	
2014	\$ 420,000	\$ 52,930	\$ 51,256	\$ 28,307	\$ 552,493
2015	435,000	41,590	53,231	26,520	556,341
2016	445,000	28,975	55,040	24,617	553,632
2017	460,000	15,180	57,013	22,644	554,837
2018	-	-	59,058	20,599	79,657
2019-2023	-	-	328,722	69,563	398,285
2024-2027	-	-	198,485	16,212	214,697
	<u>\$1,760,000</u>	<u>\$138,675</u>	<u>\$802,805</u>	<u>\$208,462</u>	<u>\$2,909,942</u>

H. Defined Contribution Pension Plans

Plant Employees

The Authority provides pension benefits for all of its full-time plant employees through a defined contribution plan, by participating in the Laborers' District Council of Western Pennsylvania Pension Fund for Local Union #1058 ("The Union"). This Plan is administered by Mellon Bank, N.A. Plan provisions and contribution requirements are established and may be amended by agreement between the Authority Board and The Union.

At December 31, 2013, there were eight plan members. The Authority is required to contribute \$2.16 for every hour worked through January 31, 2012. Effective February 1, 2012, the Authority was required to contribute \$2.40 for every hour worked and effective February 1, 2013, \$2.66 per hour was contributed. The total contribution required and made by the Authority for 2013 was based on 15,141 hours worked and amounted to \$40,034 (9.73% of covered payroll) and for 2012, was based on 13,924 hours worked and amounted to \$33,196 (8.8% of covered payroll).

Office Employees

The Authority provides pension benefits for all employees not covered by the collective bargaining agreement. This Plan is the NRPTC Prototype Simplified Employee Pension Plan and is administered by Washington Federal Savings and Loan Association. Plan provisions and contribution requirements are established and may be amended by the Authority Board.

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note II - Detailed Notes (Cont'd)**

H. Defined Contribution Pension Plans (Cont'd)

Office Employees (Cont'd)

During the year ended December 31, 2013, there were five plan members. The Authority contributes 6% of each participating employee's compensation. The total contributions for 2013 and 2012 were \$19,195 and \$18,690, respectively.

I. Leases

Operating Lease - Lessor

The Authority leases a house it had acquired as part of the purchase of a land acquisition in 2005. The land was acquired for the then anticipated expansion of its sewer plant. The property, including land, has a carrying value at December 31, 2013 of \$202,398. The lease is currently extended to November 30, 2014 with monthly rentals of \$910 discounted to \$860 if paid before the fifth day of the month. The Authority entered into a management agreement with a realtor to manage the property for a fee of eight percent (8%) of rents. Total future minimum rentals to be received as of December 31, 2013, are \$10,010. Total net rent received in 2013 and 2012 was \$9,494 and \$9,453, respectively.

J. Compensated Absences Payable

Under the terms of the union contract, employees may bank up to twenty-five (25) personal days. Should any bargaining unit employee retire and have any accumulated unused banked days, they can sell these days back to the Authority at eighty percent (80%) of the current wage rate. At December 31, 2013 and 2012, the Authority had accrued liabilities for these unused days in the amounts of \$13,921 and \$13,236, respectively.

K. Risk Management

Peters Township Sanitary 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. These risks are covered by commercial insurance purchased from independent third parties.

The Authority also purchases commercial insurance for its employee health and accident insurance coverage.

Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.