

PETERS TOWNSHIP SANITARY AUTHORITY

Audited Financial Statements
and Supplementary Information

For The Years Ended
December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board
PETERS TOWNSHIP SANITARY AUTHORITY
McMurray, Pennsylvania

We have audited the accompanying financial statements of **PETERS TOWNSHIP SANITARY AUTHORITY**, which are comprised of the statements of net position as of December 31, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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.

Auditors' Responsibility

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

Auditors' Responsibility (Continued)

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 qualified audit opinion.

Opinion

In our opinion, the 2014 financial statements referred to above present fairly, in all material respects, the financial position of **PETERS TOWNSHIP SANITARY AUTHORITY** as of December 31, 2014, and the changes in its net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of **PETERS TOWNSHIP SANITARY AUTHORITY** as of December 31, 2013, were audited by other auditors whose report dated August 21, 2014, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through xiv 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 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.

Guthrie, Belezzyk & Associates, P.C.

Eighty Four, Pennsylvania
May 6, 2015

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

This section of the annual financial statements presents management's discussion and analysis of the Authority's financial performance during the year ended December 31, 2014.

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 customers in the following areas in the Township: Brush Run Service Area, which currently serves customers within 6.5 square miles drainage area; Donaldson's Crossroads Service Area, which currently serves customers within 3.0 square miles drainage area; and Marella Manor Service Area serving 82 customers with conveyance by Upper St. Clair Township to ALCOSAN for treatment. (ALCOSAN/Upper St. Clair).

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

OVERVIEW OF THE FINANCIAL STATEMENTS

In accordance with Governmental Accounting Standards Board pronouncements, the Authority's basic financial statements consist of the following:

Statement of Net Position

The statement of net position presents information that includes all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Authority as a whole is improving or deteriorating.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses, and changes in net position reports how the Authority's net position changed during the current fiscal year. All current year revenues and expenses are included, regardless of when cash is received or paid. This statement distinctly separates operating from non-operating revenues and expenses. The change in net position at the end of the statement reconciles beginning and ending total net position as shown on the statement of net position.

Statement of Cash Flows

The statement of cash flows provides information regarding the increase or decrease in cash resulting from operating activities, capital and related financing activities, and investing activities and other nonoperating activities.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the Authority's financial statements. The notes to the financial statements begin immediately following the basic financial statements indicated above.

In addition to the above items, the Authority's Annual Financial Report includes Management's Discussion and Analysis.

FINANCIAL ANALYSIS

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.

FINANCIAL HIGHLIGHTS

- The Authority's total net position increased by approximately \$535,000 or 2.0% between 2013 and 2014.
- Operating revenues increased approximately \$185,000 or 6.3% from 2013.
- Operating expenses increased approximately \$102,000 or 4.0% over the prior fiscal year.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

FINANCIAL ANALYSIS (CONTINUED)

Net Position

Total net position increased by approximately \$535,000 during the fiscal year ended December 31, 2014, as summarized below: (in thousands)

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
<u>Assets</u>			
Cash	\$ 2,683	\$ 3,224	\$(541)
Receivables	943	903	40
Inventory	25	24	1
Prepays	74	68	6
Capital assets	25,115	24,722	393
Other assets	<u>869</u>	<u>868</u>	<u>1</u>
<u>Total Assets</u>	<u>\$ 29,709</u>	<u>\$ 29,809</u>	<u>\$(100)</u>
<u>Liabilities</u>			
Notes payable, current	\$ 53	\$ 51	\$ 2
Bonds payable, current	435	420	15
Accounts payable and accruals	197	143	54
Notes payable, long-term	699	752	(53)
Bonds payable, long-term	905	1,339	(434)
Other long-term liabilities	<u>326</u>	<u>545</u>	<u>(219)</u>
<u>Total Liabilities</u>	2,615	3,250	(635)
<u>Net Position</u>	<u>27,094</u>	<u>26,559</u>	<u>535</u>
<u>Total Liabilities and Net Position</u>	<u>\$ 29,709</u>	<u>\$ 29,809</u>	<u>\$(100)</u>
<u>Net Position Components</u>			
Invested in capital assets	\$ 23,023	\$ 22,160	\$ 863
Restricted	869	868	1
Unrestricted	<u>3,202</u>	<u>3,531</u>	<u>(329)</u>
<u>Total Net Position Components</u>	<u>\$ 27,094</u>	<u>\$ 26,559</u>	<u>\$ 535</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

FINANCIAL ANALYSIS (CONTINUED)

Net Position (Continued)

A portion of net position, approximately \$23,023,000, represents the Authority's investment in property, plant and equipment, net of accumulated depreciation and related debt. Restricted net position represents those assets that have been limited to uses specified either externally by grantors, auditors, or by laws and regulations, or internally, through legal provisions or enabling legislation. For **PETERS TOWNSHIP SANITARY AUTHORITY**, the balance of approximately \$869,000 in restricted net position at December 31, 2014, represents the amount of cash held in the various Debt Service Funds as required by the Trust Indenture of the Sewer Revenue Bonds, Series of 2009. Unrestricted net position is available to fund future projects or future operations. The balance of unrestricted net position decreased by approximately \$329,000 during the 2014 fiscal year. This was primarily due to the net effect of a decrease in unrestricted cash and an increase in the capital assets.

Change in Net Position

Operating revenues for the years ended December 31, 2014 and 2013, consisted of sewer service revenues in the amounts of \$3,111,291 and \$2,926,393, respectively.

The above comparison reflects an increase in operating revenues of \$184,898 or approximately 6.3% over 2013 levels, due primarily to a slight increase in residential water consumption, and the net effect of an auditing adjustment in 2013 for "unbilled charges estimation" which decreased 2013 operating revenues.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

A comparative analysis of operating expenses is as follows for the years ended December 31, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>	<u>Amount Change</u>	<u>% Change</u>
<u>OPERATING EXPENSES</u>				
Materials and supplies	\$ 38	\$ 31	\$ 7	22.6%
Chemicals	38	41	(3)	(7.3)
Lab supplies	24	23	1	4.3
Vehicles	29	53	(24)	(45.3)
Equipment/facilities	37	32	5	15.6
Equipment replacement	7	24	(17)	(70.8)
Maintenance and repair	211	138	73	52.9
Utilities	202	193	9	4.7
Biosolids	79	76	3	3.9
Salaries and wages	846	790	56	7.1
Employee benefits	267	244	23	9.4
Travel and meetings	8	15	(7)	(46.7)
Computers and networking	17	16	1	6.3
POTW fees	26	24	2	8.3
Professional services	63	83	(20)	(24.1)
Insurance	70	56	14	25.0
Administrative services	83	84	(1)	(1.2)
Depreciation	636	647	(11)	(1.7)
Miscellaneous expense	0	9	(9)	(100.0)
<u>Total Operating Expenses</u>	<u>\$ 2,681</u>	<u>\$ 2,579</u>	<u>\$ 102</u>	<u>4.0%</u>

Expenses from operations increased by approximately \$102,000 from the prior year. The largest increase was in the maintenance and repair category, due to several major projects in the collection system and replacement of several mechanical equipment items at the Brush Run treatment plant.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

BUDGETARY INFORMATION

The following is a comparison of actual revenues and expenses for the year ended December 31, 2014, to the original budgeted amounts for the same time period (in thousands). Depreciation expense in the amount of \$636,000 is not included in the actual column for operations as this non-cash item is not included in the budgeting process. The line item Equipment Replacement is a budgetary item for replacements in the system that would extend or replace the useful life of an asset. Any balance remaining (the under budget amount) is transferred to the capital improvements fund in order to fund the capital plan.

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<u>OPERATING REVENUES</u>			
Sewer service -			
Residential	\$ 2,358	\$ 2,461	\$(103)
Non-residential	<u>661</u>	<u>661</u>	<u>0</u>
<u>Total Sewer Service Revenues</u>	3,019	3,122	(103)
Miscellaneous operating revenues	<u>92</u>	<u>90</u>	<u>2</u>
<u>Total Operating Revenues</u>	<u>\$ 3,111</u>	<u>\$ 3,212</u>	<u>\$(101)</u>

As indicated above, sewer service revenue was under budget by approximately \$103,000 due to an unexpected decrease in water consumption.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

BUDGETARY INFORMATION (CONTINUED)

OPERATING EXPENSES

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<u>Operations</u>			
Materials and supplies	\$ 38	\$ 46	\$ (8)
Chemicals	38	42	(4)
Lab supplies	24	34	(10)
Vehicles	29	37	(8)
Equipment/Facilities	37	34	3
Equipment replacement	7	594	(587)
Maintenance and repair	211	204	7
Utilities	202	201	1
Biosolids	79	80	(1)
Salaries and wages	846	815	31
Employee benefits	267	253	14
Travel and meetings	8	12	(4)
Computers and networking	17	15	2
POTW fees	26	32	(6)
Professional services	63	72	(9)
Insurance	70	67	3
Administrative services	83	84	(1)
<u>Total Operations</u>	<u>\$ 2,045</u>	<u>\$ 2,622</u>	<u>\$ (577)</u>

Total expenses from operations were under budget by approximately \$577,000 as illustrated above. Most operating line items were under budget for the 2014 fiscal year. The salaries and wages line item was over budget due to the hiring of an administrative employee in preparation of the termination of the sewage billing contractor. In addition, employee benefits experienced a higher increase than budgeted for administration health insurance. The Equipment replacement allowance balance remaining in the account for 2014 was \$587,000, which generated an operating surplus. That amount was transferred to the capital improvements account to fund the capital plan. Therefore, management considers the overall actual expenses to be over budget by approximately \$10,000.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

NON-OPERATING REVENUE AND EXPENSES

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<u>NON-OPERATING REVENUES</u>			
<u>(EXPENSES)</u>			
Tapping fees and assessments	\$ 225	\$ 101	\$ 124
Interest income	3	3	0
Other income	15	9	6
Interest expense	(79)	(81)	2
Other expenses	<u>(57)</u>	<u>(23)</u>	<u>(34)</u>
<u>Total Non-Operating Revenues</u>	<u>\$ 107</u>	<u>\$ 9</u>	<u>\$ 98</u>

The total non-operating revenues/expenses were over budget by approximately \$98,000 as illustrated above. Tapping fees were over budget due to two large commercial tapping fees not expected. The non-operating expenses which were not budgeted items included: \$5,209 loss on disposal of assets, \$23,182 arbitrage expense on the 2009 bonds, and \$29,139 for a legal settlement regarding an employee.

RESULTS OF OPERATIONS

Operating revenues were sufficient to meet all operating expenses, with a net income (before capital contributions) of \$535,692. Ideally, this net income would approach the annual depreciation expense. By doing so, the revenue surplus generated would provide 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.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

CAPITAL IMPROVEMENT PLANNING

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 2014, a total of \$1.0 million of improvements was planned, with \$1.0 million actually expended.

The Authority funds its capital improvement plan by a self-imposed restriction of the use of its tapping fee revenue and other non-operating revenues to the replacement or rehabilitation of infrastructure assets as they approach the end of their useful life, or construction of expanded facilities. 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.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

CAPITAL ASSETS

At December 31, 2014, the Authority had approximately \$25,115,000 invested in plant assets, stated at cost, net of depreciation including land, buildings and sewage treatment facilities, equipment, vehicles and construction in progress. This represents a net increase of approximately \$393,000 over the prior year, as follows (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Reclassif- cations</u>	<u>Ending Balance</u>
Non-Depreciable				
Assets:				
Land	\$ 675	\$ 0	\$ 0	\$ 675
Construction in progress	799	828	(42)	1,585
Depreciable				
Assets:				
Site improvement	193	0	0	193
Sewer plants	7,083	0	0	7,083
Office complex	1,142	0	0	1,142
Software/ Computers	105	50	(15)	140
Permits	48	0	(6)	42
Machinery and equipment	3,614	10	0	3,624
Vehicles	474	135	(107)	502
Process Piping	816	0	0	816
Power feed mains	225	0	0	225
Collector sewers	19,208	12	0	19,220
Force mains	423	0	0	423
Interceptors	2,942	0	0	2,942
Pump stations	<u>1,087</u>	<u>0</u>	<u>0</u>	<u>1,087</u>
<u>Total, at Cost</u>	38,834	1,035	(170)	39,699

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Reclassif- cations</u>	<u>Ending Balance</u>
Less accumulated				
Depreciation:				
Site improvement	(193)	1	0	(192)
Sewer plants	(3,111)	(185)	0	(3,296)
Office complex	(95)	(23)	0	(118)
Software/ Computers	(100)	(6)	15	(91)
Permits	(41)	(7)	43	(5)
Machinery and Equipment	(2,615)	(80)	0	(2,695)
Vehicles	(442)	(15)	106	(351)
Process Piping	(756)	(5)	0	(761)
Power feed mains	(218)	(3)	0	(221)
Collector sewers	(5,457)	(237)	0	(5,694)
Force mains	(28)	(4)	0	(32)
Interceptors	(645)	(35)	0	(680)
Pump stations	(411)	(37)	0	(448)
Total accumulated depreciation	<u>(14,112)</u>	<u>(636)</u>	<u>164</u>	<u>(14,584)</u>
<u>Fixed assets, net</u>	<u>\$ 24,722</u>	<u>\$ 399</u>	<u>\$ (6)</u>	<u>\$ 25,115</u>

Additions and disposals of capital assets consisted of the following transactions:

Additions to Construction in progress consisted primarily of engineering costs and construction related to the Donaldson Crossroads treatment plant replacement and the interceptor replacement projects.

The change in vehicles consisted of the purchase of a new truck and the disposal of an old truck.

Additions to computer equipment include the purchase of a new server and billing software.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

LONG-TERM DEBT

At December 31, 2014, had approximately \$2 million in bonds and notes payable as follows: (in thousands). (See Note 7)

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>
Sewer Revenue Bonds, Series 2009	\$ 1,760	\$ 0	\$ (420)	\$ 1,340
Notes payable	<u>803</u>	<u>0</u>	<u>(51)</u>	<u>752</u>
<u>Total</u>	<u>\$ 2,563</u>	<u>\$ 0</u>	<u>\$ (471)</u>	<u>\$ 2,092</u>

CASH FLOW

Net cash and cash equivalents decreased by approximately \$542,000 in 2014. Cash was provided by operating activities in the amount of approximately \$851,000 and tap-in fees of approximately \$242,000. Cash was used primarily for capital asset additions of approximately \$1,047 million and debt service of approximately \$553,000. Although the capital additions in 2014 utilized a portion of the cash reserve built up in prior years, the positive cash flows from operations plus the remaining unrestricted cash balance of approximately \$2.7 million is sufficient to meet current obligations as well as provide for any unexpected needs that may arise.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Authority's operating budget and 10-year capital plan provide for meeting environmental regulations, planning for future growth, meeting customer expectations, servicing our debt, and providing a safe and healthy environment for our employees.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

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BUDGET FOR 2015

The estimated revenue requirements to meet 2015 operating expenses and debt service are \$3,193,389. Based on the Authority's current user rate schedule and the projected customer water consumption, adequate revenue is expected to be generated to meet 2015 expenses and a user rate adjustment is not required.

The 2015 capital plan priorities are budgeted at \$759,000, excluding the Donaldson's Crossroads treatment plant replacement project. The \$23 million treatment plant replacement project will be financed by sewer revenue bonds and a state low-interest loan.

The significant factors considered in developing the 2015 operating budget include:

The continued decline in residential water consumption due to customers' increased use of energy saving appliances and conservation efforts in general. 2014's water consumption was exacerbated by a wet spring and summer, further limiting residential water consumption. After considering all variables, management's 2015 projected water consumption is a 3.3% increase from 2014's consumption.

The continuing slow growth in new customers and corresponding reduced tapping fee revenue due to the slow pace in new home construction.

SEWAGE RATES

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%.

The cost of sewage service for the Authority's average residential customer in 2014 was \$412.96 annually, 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%. Therefore, it is reasonable to conclude that our rates remain affordable for the community.

The Authority sewer rates for 2015 are as follows:

Residential and Non-Residential Establishments

Minimum charge	\$31.00/qtr/EDU
Usage	\$5.60/1,000 gallons

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2014

FUTURE USER RATE INCREASES

A rate increase will be required in late 2015 or 2016 to support the borrowing for the Donaldson's Crossroads Plant and Interceptor Replacement Project. The plant design and permitting phase is nearly complete, and the plant project will be ready for bidding in late 2015. The Authority has secured a \$500,000 Local Share Account grant towards the \$23 million project. Assuming the Authority is successful in obtaining a Pennvest low-interest loan, in addition to a revenue bond issue for the balance, the increase in 2016 would be on the order of 30%. Continued declining water consumption however may drive this projected rate increase even higher. In order to minimize the impacts to our customers, the Authority's policy is to capitalize interest during construction, which would allow increasing rates in multiple steps between 2016 and 2018.

The plant construction schedule coincides well with the retirement of the Authority's existing treatment plant debt service. The principle balance on September 1, 2015 will be \$905,000. The combination of the \$750,000 in the Debt Service Reserve Fund, plus the \$119,000 that would be accumulated in the Debt Service Fund for the November 2015 payment, plus \$36,000 from capital reserves would be sufficient to retire the remaining bond principal in November 2015. Therefore, the Authority would be achieving one of the Authority's objectives: Postpone the borrowing for the DC Plant until the Brush Run Plant/Office debt is retired.

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 of Peters Township Sanitary Authority, 111 Bell Drive, McMurray, PA 15317, (724) 941-6709.

PETERS TOWNSHIP SANITARY AUTHORITY

Statements of Net Position

December 31, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>	<u>LIABILITIES AND NET POSITION</u>	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS</u>			<u>CURRENT LIABILITIES</u>		
Cash and cash equivalents	\$ 2,682,492	\$ 3,224,398	Notes payable - current portion	\$ 53,074	\$ 51,256
Accounts receivable	818,158	761,033	Bonds payable - current portion	435,000	420,000
Tap-in and assessments receivable, current	5,200	4,173	Accounts payable	111,436	70,973
Inventory	25,269	24,082	Retainage payable	0	11,731
Prepaid expenses	74,231	67,792	Payroll and wages payable	24,470	0
<u>Total Current Assets</u>	3,605,350	4,081,478	Accrued interest	13,863	17,643
			Other liabilities	46,801	42,643
			<u>Total Current Liabilities</u>	684,644	614,246
<u>PROPERTY, PLANT AND EQUIPMENT</u> - net	25,115,236	24,721,500	<u>LONG-TERM LIABILITIES</u>		
			Notes payable - net	698,854	751,549
			Bonds payable - net	905,000	1,338,531
			Liability for developer's deposits	237,487	450,838
			Unearned revenue	88,422	94,672
			<u>Total Long-Term Liabilities</u>	1,929,763	2,635,590
<u>OTHER ASSETS</u>			<u>NET POSITION</u>		
Funds held by trustee	868,958	868,015	Invested in capital assets, net of related debt	23,023,308	22,160,164
Tap-in and assessments receivable - net	119,314	137,602	Restricted for debt service	868,958	868,015
<u>Total Other Assets</u>	988,272	1,005,617	Unrestricted	3,202,185	3,530,580
			<u>Total Net Position</u>	27,094,451	26,558,759
<u>TOTAL ASSETS</u>	\$ 29,708,858	\$ 29,808,595	<u>TOTAL LIABILITIES AND NET POSITION</u>	\$ 29,708,858	\$ 29,808,595

See the accompanying notes to the financial statements.

PETERS TOWNSHIP SANITARY AUTHORITY

Statements of Revenues, Expenses and
Changes in Net Position

for the years ended
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>OPERATING REVENUES</u>	\$ 3,111,291	\$ 2,926,393
<u>OPERATING EXPENSES</u>		
Materials and supplies	37,294	30,784
Chemicals	38,248	41,174
Lab supplies	24,357	22,929
Vehicles	29,257	53,256
Equipment/facilities	36,631	32,415
Equipment replacement	7,110	23,979
Maintenance and repair	210,276	138,425
Utilities	202,387	193,346
Biosolids	78,719	76,129
Salaries and wages	846,234	789,882
Employee benefits	267,259	244,013
Travel and meetings	8,287	15,011
Computers and networking	16,980	15,549
POTW fees	25,922	23,845
Professional services	63,186	83,389
Insurance	69,677	55,726
Administrative services	83,399	84,000
Depreciation	635,999	646,724
Miscellaneous expenses	<u>0</u>	<u>8,530</u>
<u>Total Operating Expenses</u>	<u>2,681,222</u>	<u>2,579,106</u>
<u>Income from Operations</u>	430,069	347,287

See the accompanying notes to the financial statements.

PETERS TOWNSHIP SANITARY AUTHORITY

Statements of Revenues, Expenses and
Changes in Net Position (Continued)

for the years ended
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Tap-in fees	224,531	121,158
Interest income	2,827	28,470
Interest expense	(79,399)	(129,265)
Loss on disposal of assets	(5,209)	0
Arbitrage expense	(23,182)	(51,441)
Legal settlement	(29,139)	0
Other income	15,194	9,506
<u>Total Nonoperating Revenues (Expenses)</u>	<u>105,623</u>	<u>(21,572)</u>
<u>Net Income Before Capital Contributions</u>	535,692	325,715
<u>Developer Contributions to Systems</u>	<u>0</u>	<u>13,880</u>
<u>Change in Net Position</u>	535,692	339,595
Net position, beginning of year	<u>26,558,759</u>	<u>26,219,164</u>
<u>NET POSITION, END OF YEAR</u>	<u>\$ 27,094,451</u>	<u>\$ 26,558,759</u>

See the accompanying notes to the financial statements.

PETERS TOWNSHIP SANITARY AUTHORITY

Statements of Cash Flows

for the years ended
December, 2014 and 2013

Increase (Decrease) in Cash

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash received from customers	\$ 3,047,916	\$ 3,272,485
Cash paid to employees	(821,236)	(789,197)
Cash paid to suppliers	<u>(1,375,873)</u>	<u>(928,212)</u>
<u>Net Cash Flows Provided by Operating Activities</u>	850,807	1,555,076
<u>CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:</u>		
Arbitrage payment	(23,182)	(51,441)
Legal settlement	<u>(29,139)</u>	<u>0</u>
<u>Net Cash Flows Used in Noncapital Financial Activities</u>	(52,321)	(51,441)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Receipt of tap-in fees	241,792	135,629
Principal payments on bonds	(420,000)	(675,000)
Principal payments on notes	(50,877)	(47,734)
Payment of interest	(81,710)	(99,523)
Purchase of capital assets	<u>(1,046,675)</u>	<u>(230,528)</u>
<u>Net Cash Flows Used in Capital and Related Financing Activities</u>	(1,357,470)	(917,156)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
(Increase) Decrease in funds held by trustee	(943)	(680,975)
Receipt of interest	2,827	40,454
Sale of investment securities	0	749,000
Receipt of rent and royalties	<u>15,194</u>	<u>9,506</u>
<u>Net Cash Flows Provided by Investing Activities</u>	<u>17,078</u>	<u>117,985</u>
<u>Net Change in Cash</u>	(541,906)	704,464
Cash and cash equivalents, beginning of year	<u>3,224,398</u>	<u>2,519,934</u>
<u>CASH AND CASH EQUIVALENTS, END OF YEAR</u>	<u>\$ 2,682,492</u>	<u>\$ 3,224,398</u>

See the accompanying notes to the financial statements.

PETERS TOWNSHIP SANITARY AUTHORITY

Statements of Cash Flows (Continued)

for the years ended
December 31, 2014 and 2013

Increase (Decrease) in Cash

	<u>2014</u>	<u>2013</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH FLOWS FROM OPERATING</u>		
<u>ACTIVITIES:</u>		
Operating income	\$ 430,069	\$ 347,287
Depreciation	635,999	646,724
(Increase) decrease in:		
Accounts receivable	(57,125)	346,092
Inventory	(1,187)	236
Prepaid expenses	(6,439)	(11,614)
Increase (decrease) in:		
Accounts payable	40,463	(44,214)
Payroll and wages payable	24,470	685
Other accrued liabilities	4,158	(22,813)
Liability for developers' deposits	(213,351)	292,693
Unearned revenue	(6,250)	0
<u>NET CASH FLOWS PROVIDED BY OPERATING</u>		
<u>ACTIVITIES</u>	<u>\$ 850,807</u>	<u>\$ 1,555,076</u>

See the accompanying notes to the financial statements.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 1 - NATURE OF OPERATIONS

PETERS TOWNSHIP SANITARY AUTHORITY is a municipal authority formed pursuant to the Municipal Authorities Act of 1995, as amended. 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 Donaldson's Crossroads Sewage Treatment Plants which principally serve the residents of Peters Township. The accompanying financial statements include all activities of the Authority.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements included herein were prepared using the accrual method of accounting, recognizing revenue when earned and expenses when incurred.

Recently Issued Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements, as applicable: assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The provisions of this statement are effective for periods beginning after December 15, 2011, and have been implemented in the accompanying financial statements.

In March of 2012 GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as current period revenue or expense, certain items that were previously reported as assets and liabilities. This statement also limits the use of the term "deferred" in financial statement presentation. GASB 65 is effective for periods beginning after December 15, 2012, and was implemented retroactively as of January 1, 2012.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources as presented in the statement of net position. Net position invested in property, plant and equipment consists of the net book value of the Authority's capital assets, reduced by the outstanding debt used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by legislation or by creditors, grantors, laws, or regulations of other governing bodies, net of any unspent bond proceeds. Restricted resources are used for bond redemption and construction expenses as provided by the applicable bond indentures. Unrestricted net position is available to fund future operations or future projects. It is the policy of **PETERS TOWNSHIP SANITARY AUTHORITY** to first apply restricted resources when an expense or capital purchase is incurred for purposes for which both restricted and unrestricted net position is available.

Operating and Nonoperating Items

PETERS TOWNSHIP SANITARY AUTHORITY distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services in connection with the Authority's principal ongoing operations. All other revenues and expenses are nonoperating.

Reporting Entity

The Board of Directors of **PETERS TOWNSHIP SANITARY AUTHORITY** is the body which has financial accountability and control over all activities related to the Authority. The Authority is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board (GASB) pronouncements, since board members have decision-making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement No. 14 which are included in the Authority's reporting entity.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

An operating budget is adopted each year for the Authority on the accrual basis of accounting, excluding depreciation, establishing appropriations for anticipated expenditures for the fiscal year. The budget information approved by the Board was not amended during the current fiscal year.

Cash and Cash Equivalents

For purposes of the cash flows statement, the Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2014 or 2013.

Pooled Collateral

The Authority's funds are required to be deposited and invested in accordance with the terms of Pennsylvania Act 72 (1971) concerning the insurance or pledging of assets to secure deposits of public funds. At December 31, 2014 and 2013, the carrying amount of the Authority's cash deposits and investments, including trust accounts, was \$3,551,450 and \$4,092,413, respectively. The entire balance throughout the year was covered by federal depository insurance, by pledged pooled collateral, or insured or secured as required by law.

Investments

The Municipal Authorities Act limits the types of investments allowed by Municipal Authorities to certain United States obligations and bank deposits, including savings account and time deposits. Although there is no formal written investment policy, **PETERS TOWNSHIP SANITARY AUTHORITY** adheres to the requirements of the Act. Currently, the Authority invests excess cash in bank money market accounts and certificates of deposit.

Accounts Receivable

The Authority currently bills the majority of its customers on a quarterly basis. A 10% penalty is added twenty-one days after the bill date. In addition, a finance charge of .83% per month is added monthly to any unpaid balance.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable (Continued)

The Authority has a contractual arrangement with the water company to have water service shut off on delinquent sewage accounts. In the event the Authority is unable to collect sewer fees by this means, the Authority follows the practice of enforcing collections by filing liens on the properties.

No provision is made for an allowance for doubtful accounts as these charges are lienable charges. Any other charges that become uncollectible are charged to expense in the year they become uncollectible. There were no charge-offs for the years ended December 31, 2014 or 2013.

Property, Plant and Equipment

Additions to property, plant and equipment, are recorded at cost.

In the case of the initial capitalization of certain sewer lines, the Authority chose to include all such items regardless of their acquisition date or amount. The Authority 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 the Financial Statements

December 31, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (Continued)

Repairs and minor replacements are charged to operating expense when incurred. Depreciation is calculated utilizing the straight-line method over estimated useful lives as follows:

Site improvements	7-20 years
Sewer plants and office complex	50-60 years
Software/computers	5-7 years
Permits	5 years
Machinery and equipment	5-20 years
Vehicles	3-5 years
Process piping, Power feed mains, Collector sewers, Force mains, Interceptors	80-100 years

Land and construction in progress are not depreciated. Construction in progress consists of engineering, construction, and other costs incurred as part of the project. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. There was no interest capitalized in 2014 or 2013.

Depreciation expense for the years ended December 31, 2014 and 2013, amounted to \$635,999 and \$646,724, respectively.

Inventory

Inventory is valued at cost using the first-in/first-out (FIFO) method and consists of expendable supplies relative to the sewer system.

Funds Held by Trustee

As required under various trust indenture and loan agreements, a number of special trust accounts have been established by the Authority. Funds held by the Trustee are deposited and secured or invested as permitted by law and as provided in the investment provisions of the trust indenture. Investments held under these arrangements are measured at fair value on the accompanying Statements of Net Position based on quoted market prices. Investment income or loss, including realized and unrealized gains and losses on investments, interest, and dividends, is included in nonoperating revenues (expenses) on the accompanying Statements of Revenues, Expenses and Changes in Net Position. All transfers between funds were properly made according to the trust indenture and loan agreements.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Held by Trustee (Continued)

Invested funds consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Money Market	<u>\$ 868,958</u>	<u>\$ 868,015</u>

Concentration of Credit Risk

Financial instruments that potentially subject the Authority to credit risk consist principally of accounts receivable from customers, substantially all of whom are local residents.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with United States generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets, liabilities, and deferred inflows and outflows of resources, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Compensated Absences

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, 2014 and 2013, the Authority had accrued liabilities for these unused days in the amounts of \$14,449 and \$13,921, respectively. These amounts are included under the caption "Other liabilities" in the accompanying financial statements.

Statement Reclassifications

Certain reclassifications have been made in the prior year's amounts to conform with current year statement presentation.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

The Authority applies the provisions of Accounting Standards Codification (ASC) 820-10 for fair value measurement of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Subsequent Events

In accordance with Accounting Standards Codification (ASC) 855-10, *Subsequent Events*, **PETERS TOWNSHIP SANITARY AUTHORITY** has evaluated subsequent events through May 6, 2015, the date the financial statements were available to be issued.

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting Standards Codification (ASC) 820-10, establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial statements.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables present the Authority's investments carried at fair value on a recurring basis as of December 31, 2014 and 2013, in accordance with the ASC 820-10 valuation hierarchy defined above:

	<u>December 31, 2014</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held by trustee	\$ 868,958	\$ 0	\$ 0	\$ 868,958
Cash and cash equivalents - PLGIT Class & PLGIT/I-Class	<u>77,448</u>	<u>0</u>	<u>0</u>	<u>77,448</u>
	<u>\$ 946,406</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 946,406</u>

	<u>December 31, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held by trustee	\$ 868,015	\$ 0	\$ 0	\$ 868,015
Cash and cash equivalents - PLGIT Class & PLGIT/I-Class	<u>62,990</u>	<u>0</u>	<u>0</u>	<u>62,990</u>
	<u>\$ 931,005</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 931,005</u>

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 government 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.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The trustees are elected from the several classes of local governments participating in the trust. The trust is audited annually by independent auditors and 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.

Other financial instruments consist of receivables, payables and accruals, and bonds payable. The recorded values of receivables, payables, and accruals approximate fair value based on their short-term nature. The recorded values of the notes payable and bonds payable approximate fair value as interest rates approximate market.

NOTE 4 - TAP-IN AND ASSESTMENTS 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 Environment 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. These assessments totaled \$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 installment plan required payments to be made over 216 months, including interest at 2.5%. The total outstanding at December 31, 2014 and 2013 from this plan amounted to \$16,341 and \$19,653, 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. Residents were also given the opportunity to pay these fees over a period of time. As of December 31, 2014 and 2013, \$19,751 and \$27,450 was outstanding for these fees, respectively.

In addition to the above, the Authority also has outstanding deferred agricultural assessments receivable in the amount of \$88,422 and \$94,672 as of December 31, 2014 and 2013, respectively. These amounts will remain outstanding until the properties are no

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 4 - ASSESSMENTS AND ASSESTMENT RECEIVABLE (CONTINUED)

longer agricultural property. There is also a corresponding non-current liability reported as unearned revenue in the accompanying statements of net position as the revenue for these agricultural assessments has not been recognized.

The above amounts are included in the accompanying statements of net position as follows:

	<u>2014</u>	<u>2013</u>
Tap-in and assessments receivable - current	\$ 5,200	\$ 4,173
Tap-in and assessments receivable - net	<u>119,314</u>	<u>137,602</u>
	<u>\$ 124,514</u>	<u>\$ 141,775</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Reclassif- cations</u>	<u>Ending Balance</u>
Non-Depreciable				
Assets:				
Land	\$ 675,008	\$ 0	\$ 0	\$ 675,008
Construction in progress	798,841	828,299	(42,349)	1,584,791
Depreciable				
Assets:				
Site improvement	193,535	0	0	193,535
Sewer plants	7,083,328	0	0	7,083,328
Office complex	1,141,545	0	0	1,141,545
Software/ Computers	104,830	49,568	(14,914)	139,484
Permits	47,803	0	(5,454)	42,349
Machinery and equipment	3,614,382	10,428	0	3,624,810
Vehicles	474,291	134,960	(106,829)	502,422

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Reclassif- cations</u>	<u>Ending Balance</u>
Depreciable Assets: (Continued)				
Process Piping	815,770	0	0	815,770
Power feed mains	225,500	0	0	225,500
Collector sewers	19,207,764	11,689	0	19,219,453
Force mains	422,944	0	0	422,944
Interceptors	2,941,718	0	0	2,941,718
Pump stations	1,086,538	0	0	1,086,538
<u>Total, at Cost</u>	38,833,797	1,034,944	(169,546)	39,699,195
Less accumulated Depreciation:				
Site improvement	193,025	511	0	193,536
Sewer plants	3,110,908	184,462	0	3,295,370
Office complex	95,129	22,831	0	117,960
Software/ Computers	100,487	6,178	(14,914)	91,751
Permits	41,193	7,284	(42,740)	5,737
Machinery and equipment	2,615,468	79,760	0	2,695,228
Vehicles	441,523	14,204	(106,683)	349,044
Process Piping	756,104	5,339	0	761,443
Power feed mains	217,799	2,567	0	220,366
Collector sewers	5,457,141	237,043	0	5,694,184
Force mains	27,792	4,090	0	31,882
Interceptors	644,751	34,879	0	679,630
Pump stations	410,977	36,851	0	447,828
Total accumulated depreciation	14,112,297	635,999	(164,337)	14,583,959
<u>Fixed assets, net</u>	\$24,721,500	\$ 398,945	\$(5,209)	\$25,115,236

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 6 - PENSION PLANS

Defined Benefit Plan

The Authority contributes to a multiemployer defined benefit pension plan under the terms of a collective bargaining agreement that covers its union-represented employees. The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Authority chooses to stop participating in the multiemployer plan, the Authority may be required to pay the plan based on the unfunded status of the plan, referred to as a withdrawal liability.

The plan, known as the Laborers' District Council of Western Pennsylvania Pension Fund, is managed by a board of trustees appointed in equal numbers by the Union and by the Employers. Approximately 60% of the Authority's current employees are participants in the plan which provides retirement benefits to members based on their service to contributing employers.

The Authority was informed by the plan sponsor that the plan is in critical status for the plan year beginning January 1, 2014. A plan is considered to be in critical status because it has funding or liquidity problems, or both. When a pension plan enters critical status, the trustees of the plan are required to adopt a rehabilitation plan. As such, the trustees adopted a rehabilitation plan scheduled to run through December 31, 2020 which provides for changes in adjustable benefits and increases in the employer contribution rate. The Authority's current union contract, which runs through January 31, 2016, has provided for maximum hourly contribution rates, ranging from \$2.16 to \$3.28, which reflect the plan's current projected increases. Subsequent increases or decreases to the contribution rates during the term of the union agreement will be adjusted through the employee's negotiated hourly wage rate. Pension expense for the multiemployer pension plan was \$45,512 and \$39,893 for the years ended December 31, 2014 and 2013, respectively.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 6 - PENSION PLANS (CONTINUED)

Defined Contribution Plans

The Authority also provides retirement benefits for all employees not covered by the collective bargaining agreement. This Plan is the Universal Simplified Employee Pension Plan (SEP) and is administered by Washington Financial Savings Bank. Plan provisions and contribution requirements are established and may be amended by the Authority Board.

The Authority currently contributes 6% of each participating employee's compensation. During the year ended December 31, 2014, there were six plan members. The Authority's total contributions for 2014 and 2013 were \$20,246 and \$19,195, respectively.

In addition, the Authority offers a deferred compensation arrangement (457 Plan) to its employees. Participants can contribute an amount up to eligible compensation to this plan subject to applicable federal regulations.

NOTE 7 - LONG-TERM DEBT

Bonds Payable

On February 15, 2009, the Authority issued the Sewer Revenue Bonds, Series of 2009 in the amount of \$4,960,000. Proceeds from the sale of the 2009 bonds were be used to: 1) finance construction of a new administrative building; 2) finance improvements to the Brush Run treatment facility; 3) refund, on a current refunding basis, the Authority's Sewer Revenue Bonds, Series 2003; and 4) pay the costs of issuing and insuring the Bonds.

The annual debt service to maturity (2017) on the 2009 Series Bonds is as follows:

<u>Interest Rate</u>	<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2.90%	2015	\$ 435,000	\$ 41,590	\$ 476,590
3.10%	2016	445,000	28,975	473,975
3.30%	2017	460,000	15,180	475,180
<u>Total</u>		<u>\$ 1,340,000</u>	<u>\$ 85,745</u>	<u>\$ 1,425,745</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Notes Payable

	<u>2014</u>	<u>2013</u>
On November 2, 2011, the Authority obtained a bank loan for the Valley View Sewer Line Extension Project. The loan requires monthly payments of \$4,438, at 4% interest, through November 2027.	\$ 536,767	\$ 567,517
On October 23, 2003, the Authority obtained a Pennsylvania Infrastructure Investment Authority (Pennvest) loan for the Ivy Lane Sewer Extension Project. The loan requires monthly payments of \$2,199, currently at 2.774% interest, through March 2024.	<u>215,161</u>	<u>235,288</u>
	751,928	802,805
Less: current maturities included in current liabilities	<u>53,074</u>	<u>51,256</u>
<u>Notes Payable</u> - net	<u>\$ 698,854</u>	<u>\$ 751,549</u>

Changes in Bonds Payable and Notes Payable

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
<u>Bonds</u>					
Series 2009	\$1,760,000	\$ 0	\$420,000	\$1,340,000	\$435,000
<u>Notes</u>					
Bank loan	567,517	0	30,750	536,767	32,385
Pennvest Loan	<u>235,288</u>	<u>0</u>	<u>20,127</u>	<u>215,161</u>	<u>20,689</u>
<u>Total Notes Payable</u>	<u>802,805</u>	<u>0</u>	<u>50,877</u>	<u>751,928</u>	<u>53,074</u>
<u>Total Notes Payable and Bonds Payable</u>	<u>\$2,562,805</u>	<u>\$ 0</u>	<u>\$470,877</u>	<u>\$2,091,928</u>	<u>\$488,074</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Environmental Regulations

Substantially all of the Authority's facilities are subject to federal, state, and local provisions regulating the discharge of materials into the environment. Management believes that its current practices and procedures for the control and disposition of such waste comply with applicable federal, state and local requirements.

Litigation Settlement

During the year ended December 31, 2014, a settlement was reached regarding a lost wage claim with a former employee. The agreement called for a payment of \$75,000 plus employer taxes. Total cost to the Authority amounted to approximately \$29,000 net of insurance reimbursement of approximately \$48,000.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, damage to and theft or destruction of assets, errors and omissions, injuries to employees, and natural disaster. During the year ended December 31, 2014, the Authority contracted with various insurance groups to provide coverages as follows:

Building and Equipment	\$10,153,908
Personal Property	\$ 7,827,328
General Liability	\$1,000,000/occurrence \$2,000,000 aggregate
Auto Liability	\$1,000,000
Flood/Earthquake	\$2,000,000/occurrence \$4,000,000 aggregate
Computer Equipment	\$50,000/occurrence \$150,000/year
Workers Compensation	\$500,000/accident \$500,000 aggregate

The Authority has had no significant reduction in the above insurance coverage from prior years.

The Authority carries health insurance on all full time employees.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 10 - OPERATING REVENUES

The Authority's operating revenues consisted of the following at December 31,

	<u>2014</u>	<u>2013</u>
Residential sewer	\$ 2,358,466	\$ 2,204,567
Non-residential sewer	660,533	630,951
Other	<u>92,292</u>	<u>90,875</u>
<u>Total Operating Revenues</u>	<u>\$ 3,111,291</u>	<u>\$ 2,926,393</u>

NOTE 11 - RENTAL INCOME

The Authority leases a house it acquired as part of a property acquisition in 2005. The property was purchased as part of the Piney Fork service area Act 537 sewage facilities plan update, which is still in the planning phase. The property, including the land, has a carrying value at December 31, 2014 of \$202,398. The lease expired November 30, 2014 and is currently on a month-to-month basis. Monthly rentals of \$910 are 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 net rent received in 2014 and 2013 was \$9,540 and \$9,494, respectively, and is included in other income in the accompanying financial statements.