

**PETERS TOWNSHIP SANITARY AUTHORITY**

Audited Financial Statements and  
Required Supplementary Information

For The Years Ended  
December 31, 2016 and 2015

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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 comprise of the statements of net position as of December 31, 2016 and 2015, 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **PETERS TOWNSHIP SANITARY AUTHORITY** as of December 31, 2016 and 2015, and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audits 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, Belczyk & Associates, P.C.*

Eighty Four, Pennsylvania  
May 10, 2017

**PETERS TOWNSHIP SANITARY AUTHORITY**

Management Discussion and Analysis

December 31, 2016

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, 2016.

**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 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, 2016

**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 \$1,081,000 or 3.8% between 2015 and 2016.
- Operating revenues increased approximately \$279,000 or 8.7% from 2015.
- Operating expenses increased approximately \$136,000 or 4.9% over the prior fiscal year.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2016

**FINANCIAL ANALYSIS (CONTINUED)**

**Net Position**

Total net position increased by approximately \$1,081,000 during the fiscal year ended December 31, 2016, as summarized below: (in thousands)

	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
<b><u>ASSETS</u></b>			
<b><u>CURRENT ASSETS</u></b>			
Cash and investments	\$ 2,966	\$ 3,002	\$ ( 36)
Receivables	833	813	20
Inventory	25	23	2
Prepaid expenses	<u>97</u>	<u>9</u>	<u>88</u>
<b><u>Total Current Assets</u></b>	<b>3,921</b>	<b>3,847</b>	<b>74</b>
Capital assets - net	30,021	25,761	4,260
<b><u>OTHER ASSETS</u></b>			
Funds held by trustee	2,550	0	2,550
Tap-in and assessments receivable - net	<u>106</u>	<u>112</u>	<u>( 6)</u>
<b><u>Total Other Assets</u></b>	<b><u>2,656</u></b>	<b><u>112</u></b>	<b><u>2,544</u></b>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 36,598</u></b>	<b><u>\$ 29,720</u></b>	<b><u>\$ 6,878</u></b>

**LIABILITIES AND NET POSITION**

<b><u>CURRENT LIABILITIES</u></b>			
Notes payable - current portion	\$ 57	\$ 55	\$ 2
Bonds payable - current portion	5	0	5
Payables and accruals	<u>168</u>	<u>201</u>	<u>( 33)</u>
<b><u>Total Current Liabilities</u></b>	<b>230</b>	<b>256</b>	<b>( 26)</b>

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2016

FINANCIAL ANALYSIS (CONTINUED)

LIABILITIES AND NET POSITION (CONTINUED)

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
<b><u>LONG-TERM LIABILITIES</u></b>			
Notes payable - net	588	644	( 56)
Bonds payable - net	5,878	0	5,878
Other long-term liabilities	<u>236</u>	<u>235</u>	<u>1</u>
<b><u>Total Long-Term Liabilities</u></b>	<b>6,702</b>	<b>879</b>	<b>5,823</b>
<b><u>NET POSITION</u></b>			
Invested in capital assets, net of related debt	24,228	25,062	( 834)
Restricted for debt service	1,762	0	1,762
Unrestricted	<u>3,676</u>	<u>3,523</u>	<u>153</u>
<b><u>Total Net Position</u></b>	<b><u>29,666</u></b>	<b><u>28,585</u></b>	<b><u>1,081</u></b>
<b><u>TOTAL LIABILITIES AND NET POSITION</u></b>	<b><u>\$ 36,598</u></b>	<b><u>\$ 29,720</u></b>	<b><u>\$ 6,878</u></b>

A portion of net position, approximately \$24,228,000, 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, net of any unspent portion of debt proceeds and liabilities relating to those assets. For **PETERS TOWNSHIP SANITARY AUTHORITY**, restricted net assets amounted to approximately \$1,762,000 at December 31, 2016. Unrestricted net position is available to fund future projects or future operations. The balance of unrestricted net position increased by approximately \$153,000 during the 2016 fiscal year, due to income from operations and tapping fees collected.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2016

**FINANCIAL ANALYSIS (CONTINUED)**

**Change in Net Position**

Operating revenues for the years ended December 31, 2016 and 2015, consisted of sewer service revenues in the amounts of \$3,493,032 and \$3,214,531, respectively.

The above comparison reflects an increase in operating revenues of \$278,501 or approximately 4.9% over 2015 levels, due primarily to a rate increase effective January 1, 2016.

A comparative analysis of operating expenses is as follows for the years ended December 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>Amount Change</u>	<u>% Change</u>
<b><u>OPERATING EXPENSES</u></b>				
Materials and supplies	\$ 45	\$ 41	\$ 4	9.8%
Chemicals	31	35	( 4)	( 11.4)
Lab supplies	23	25	( 2)	( 8.0)
Vehicles	30	31	( 1)	( 3.2)
Equipment/facilities	48	32	16	50.0
Equipment replacement	0	0	0	0.0
Maintenance and repair	268	232	36	15.5
Utilities	204	209	( 5)	( 2.4)
Biosolids	82	82	0	0.0
Salaries and wages	927	871	56	6.4
Employee benefits	285	266	19	7.1
Travel and meetings	11	11	0	0.0
Computers and networking	24	16	8	50.0
POTW fees	30	32	( 2)	( 6.3)
Professional services	116	110	6	5.5
Insurance	89	79	10	12.7
Administrative services	41	59	( 18)	( 30.5)
Depreciation	669	656	13	2.0
<b><u>Total Operating Expenses</u></b>	<u>\$ 2,923</u>	<u>\$ 2,787</u>	<u>\$ 136</u>	<u>4.9%</u>

Expenses from operations increased by approximately \$136,000 from the prior year. The largest increases were in salaries and wages and employee benefits, due to the hiring of a maintenance employee. The next largest dollar increase was in the maintenance and repair category, due to several large projects in the collection system. The largest decrease was in administrative services due to the elimination of the grants coordinator and a decrease in public newsletters and notifications in 2016.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2016

**BUDGETARY INFORMATION**

The following is a comparison of actual revenues and expenses for the year ended December 31, 2016, to the original budgeted amounts for the same time period (in thousands). Depreciation expense in the amount of approximately \$669,000 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>
<b><u>OPERATING REVENUES</u></b>			
Sewer service -			
Residential	\$ 2,632	\$ 2,739	\$ ( 107)
Non-residential	753	778	( 25)
<b><u>Total Sewer Service Revenues</u></b>	<b>3,385</b>	<b>3,517</b>	<b>( 132)</b>
Miscellaneous operating revenues	<u>108</u>	<u>117</u>	<u>( 9)</u>
<b><u>Total Operating Revenues</u></b>	<b><u>\$ 3,493</u></b>	<b><u>\$ 3,634</u></b>	<b><u>\$ ( 141)</u></b>

As indicated above, sewer service revenue was under budget by approximately \$132,000 due to a decrease in residential water consumption of approximately 6% from 2015 consumption. The non-residential water consumption decreased as well, but by a lower percentage, and there was less tapping fee revenue than expected.

Miscellaneous operating revenues were under budget by approximately \$9,000.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Management Discussion and Analysis

December 31, 2016

**BUDGETARY INFORMATION (CONTINUED)**

**OPERATING EXPENSES**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<b><u>Operating Expenses</u></b>			
Materials and supplies	\$ 45	\$ 42	\$ 3
Chemicals	31	42	( 11)
Lab supplies	23	26	( 3)
Vehicles	30	35	( 5)
Equipment/Facilities	48	42	6
Maintenance and repair	268	265	3
Utilities	204	217	( 13)
Biosolids	82	91	( 9)
Salaries and wages	927	948	( 21)
Employee benefits	285	327	( 42)
Travel and meetings	11	12	( 1)
Computers and networking	24	20	4
POTW fees	30	41	( 11)
Professional services	116	105	11
Insurance	89	87	2
Administrative services	41	52	( 11)
Equipment replacement allowance	<u>0</u>	<u>431</u>	<u>( 431)</u>
<b><u>Total Operatings Expenses</u></b>	<b><u>\$ 2,254</u></b>	<b><u>\$ 2,783</u></b>	<b><u>\$( 529)</u></b>

Total expenses from operations were under budget by approximately \$529,000 as illustrated above. However, when the equipment replacement allowance is subtracted, the amount under budget was approximately \$98,000. The largest variances were in the salaries and employee benefits category. These items were under budget due to the fact that the maintenance person hired was budgeted for the entire year but did not begin employment with the Authority until mid-year.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2016

**BUDGETARY INFORMATION (CONTINUED)**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<b><u>NON-OPERATING REVENUES</u></b>			
<b><u>(EXPENSES)</u></b>			
Tapping fees	\$ 125	\$ 126	\$( 1)
Interest income	28	7	21
Other income	10	10	0
	<u>163</u>	<u>143</u>	<u>20</u>
<b><u>UNBUDGETED NON-OPERATING</u></b>			
<b><u>REVENUES (EXPENSES)</u></b>			
Interest expense	( 23)	0	
Bond costs	( 129)	0	
Grant revenue	500	0	
	<u>348</u>	<u>0</u>	<u>0</u>
<b><u>Total Non-Operating Revenues</u></b>	<u>\$ 511</u>	<u>\$ 143</u>	<u>\$ 20</u>

The budgeted non-operating revenues/expenses were over budget by approximately \$20,000 as illustrated above.

In addition, certain non-operating revenues and expenses not included in the budget were recorded during the year ended December 31, 2016 as noted above.

**RESULTS OF OPERATIONS**

Operating revenues were sufficient to meet all operating expenses, with an increase in net position of \$1,080,885. Ideally, this net increase 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 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 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, 2016

**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 2016, excluding the Donaldson's Crossroads WPPC upgrade and expansion construction cost, a total of \$1.38 million of improvements were planned, with approximately \$1.15 million actually expended. The amount planned in 2016 for the Donaldson's Crossroads WPPC upgrade and expansion construction was \$5.6 million, with approximately \$3.64 million actually expended. Funding for these construction costs was provided by the 2016 bond issue and a \$500,000 grant received from the Local Share Account.

Major Capital Expenditures during 2016 included the following:

- Construction Management Services for the Donaldson Crossroads treatment plant replacement
- Work in Progress - The continuous design of the Donaldsons Crossroads interceptor replacement project
- Completed the Valleybrook Interceptor Cured-In-Place sewer rehabilitation project
- Completed Cured-In-Place lining in various sewer segments located in the Donaldson Crossroads sewer shed
- Brush Run WWTP Blower replacement
- Purchased a F-450 Truck
- Purchased Flow Meters for the Collection System

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 to the construction of expanded facilities. This policy provides for the timely replacement of infrastructure assets, a steady increase in net asset value, as well as a minimization of reliance on borrowed funds.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Management Discussion and Analysis

December 31, 2015

**CAPITAL ASSETS**

At December 31, 2016, the Authority had approximately \$30,021,000 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 \$4,260,000 over the prior year, as follows (in thousands):

	<u>Beginning Balance</u>		<u>Additions</u>	<u>(Disposals) Reclassif- cations</u>		<u>Ending Balance</u>
<b>Non-Depreciable</b>						
<b>Assets:</b>						
Land	\$ 675	\$	0	\$	0	\$ 675
Construction in progress	1,808		4,801	( 414)		6,195
 <b>Depreciable</b>						
<b>Assets:</b>						
Site improvement	193		0		0	193
Sewer plants	7,083		0		0	7,083
Office complex	1,142		9		0	1,151
Software/ Computers	155		7		0	162
Permits	42		0		0	42
Machinery and equipment	3,624		52	122		3,798
Vehicles	541		58		0	599
Process Piping	816		0		0	816
Power feed mains	225		0		0	225
Collector sewers	20,111		0	26		20,137
Force mains	423		0	261		684
Interceptors	3,035		0		0	3,035
Pump stations	<u>1,053</u>		<u>2</u>		<u>0</u>	<u>1,055</u>
 <b><u>Total, at Cost</u></b>	 40,926		 4,929	 ( 5)		 45,850

**PETERS TOWNSHIP SANITARY AUTHORITY**

Management Discussion and Analysis

December 31, 2016

**CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Disposals) Reclassif- cations</u>	<u>Ending Balance</u>
<b>Less accumulated</b>				
<b>Depreciation:</b>				
Site improvement	( 192)	0	0	( 192)
Sewer plants	( 3,479)	( 183)	0	( 3,662)
Office complex	( 141)	( 23)	0	( 164)
Software/ Computers	( 99)	( 10)	0	( 109)
Permits	( 13)	( 9)	0	( 22)
Machinery and Equipment	( 2,758)	( 74)	5	( 2,827)
Vehicles	( 353)	( 35)	0	( 388)
Process Piping	( 766)	( 5)	0	( 771)
Power feed mains	( 224)	( 3)	0	( 227)
Collector sewers	( 5,945)	( 247)	0	( 6,192)
Force mains	( 36)	( 4)	0	( 40)
Interceptors	( 715)	( 39)	0	( 754)
Pump stations	( 444)	( 37)	0	( 481)
 <b><u>Total</u></b>				
<b><u>accumulated</u></b>				
<b><u>depreciation</u></b>	( 15,165)	( 669)	5	( 15,829)
 <b><u>NET CAPITAL</u></b>				
<b><u>ASSETS</u></b>	\$ 25,761	\$ 4,260	\$ 0	\$ 30,021

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

Additions to Construction in progress consisted primarily of expenditures related to engineering and construction costs for the Donaldsons Crossroads treatment plant replacement project.

Changes to machinery and equipment consisted of the purchase of blower equipment, reclassifications from construction in progress and the disposal of obsolete equipment.

The increase in vehicles was for the acquisition of a new truck.

There were reclassifications of cost to the Collector Sewers and Force mains from construction in progress.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Management Discussion and Analysis

December 31, 2016

**LONG-TERM DEBT**

At December 31, 2016, the Authority had approximately \$6,470,000 in bonds and notes payable as follows: (in thousands). The Sewer Revenue Bonds Series 2016 in the amount of \$5,825,000 were issued during 2016. (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 2016	\$ 0	\$ 5,825	\$ 0	\$ 5,825
Notes payable	<u>699</u>	<u>0</u>	<u>54</u>	<u>645</u>
<b><u>Total</u></b>	<b><u>\$ 699</u></b>	<b><u>\$ 5,825</u></b>	<b><u>\$ 54</u></b>	<b><u>\$ 6,470</u></b>

**CASH FLOW**

Net cash and cash equivalents decreased by approximately \$436,000 in 2016, or 15%. This was primarily attributed to the activity relating to the treatment plant project, including bond proceeds and related construction expenses. The net cash flow provided by operating activities decreased by approximately \$16,000 or 1.4%, however the operating inflows and outflows have remained substantially proportional from year to year. The net cash flow from capital, financing, and investing activities related primarily to the activity for the treatment plant project. The inflow of cash from tapping fees decreased by approximately \$30,000 or 18%, primarily due to the slow growth of new customers. Overall, the cash and cash equivalents balance of approximately \$2.5 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, fulfilling customer expectations, servicing our debt, and providing a safe and healthy environment for our employees.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Management Discussion and Analysis

December 31, 2016

**BUDGET FOR 2017**

The estimated revenue requirements to meet 2017 operating expenses and debt service are approximately \$3.6 million. Although there is no rate increase projected in 2017, a rate increase is anticipated for the 2018 Budget.

The significant factors considered in developing the 2017 operating budget include:

- A continual, slow decline in residential water consumption, which has a negative effect on sewer revenue. Residential water consumption is decreasing at an annual rate of approximately 1% per year. This pattern appears to be occurring nationwide due in part to water saving appliances, as well as conservation efforts in general. It should be noted that reduced water consumption has very little effect on the Authority's expenses, which consist primarily of debt service, personnel, power to operate treatment plants, biosolids disposal, equipment repair, and sewer line maintenance.
- The continuing slow growth in new customers and corresponding reduced tapping fee revenue due to the slower pace of new home construction.
- The need to accelerate our sewer line rehabilitation and replacement program to reduce groundwater infiltration during peak rain events, considering the PaDEP required Corrective Action Plan on the DC Sewer System, and the PaDEP imposed Consent Order and Agreement pertaining to the Authority's sewers discharging to the ALCOSAN sewer system, both implemented in 2015.
- Overall operating expenses are projected to increase by 5%, primarily due to a large increase in the chemicals and biosolids required for sewage treatment as well as an increase in personnel costs.
- The non-operating expenses which include interest expense associated with the borrowed funds for the Donaldson Crossroads treatment plant replacement project.

The 2017 capital plan priorities are budgeted at \$1.5 million, excluding the costs related to the Donaldson's Crossroads treatment plant replacement project.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Management Discussion and Analysis

December 31, 2016

**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 2015 was \$470 annually, which equates to 0.3% 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 2017 are as follows:

**Residential and Non-Residential Establishments**

Minimum charge	\$34.00/qtr/EDU
Usage	\$6.40/1,000 gallons

**FUTURE USER RATE INCREASES**

It is anticipated that a rate increase will be required in 2018 to support the borrowing for the Donaldson's Crossroads Plant and Interceptor Replacement Project. The plant design and permitting phase is completed; the construction phase commenced in February 2016 and will continue until April 2018. The treatment plant replacement project will be financed by a state-subsidized \$11 million low interest Pennvest Loan, \$5.8 million Township guaranteed sewer revenue bond, capital reserves, and \$585,000 of grant funding. The 2018 rate increase is expected to be approximately 12%. The continued declining water consumption, however, may drive this projected rate increase 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 rather than all at once.

**CONTACTING THE AUTHORITY'S MANAGEMENT**

This financial report is designed to provide our customers with a general overview of the Authority's finances and to show the Board's accountability for the money it receives. If you have any questions regarding this report or wish to request additional financial information, please contact Ms. Patricia L. Mowry, Financial Controller of Peters Township Sanitary Authority, 111 Bell Drive, McMurray, PA 15317, (724) 941-6709.

PETERS TOWNSHIP SANITARY AUTHORITY

Statements of Net Position

December 31, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>	<u>LIABILITIES AND NET POSITION</u>	<u>2016</u>	<u>2015</u>
<b><u>CURRENT ASSETS</u></b>			<b><u>CURRENT LIABILITIES</u></b>		
Cash and cash equivalents	\$ 2,565,427	\$ 3,001,592	Notes payable - current portion	\$ 56,949	\$ 54,979
Certificate of deposit	400,000	0	Bonds payable - current portion	5,000	0
Accounts receivable	829,569	751,096	Accounts payable	90,459	104,146
Other receivables	0	56,805	Construction payable	0	71,856
Tap-in and assessments receivable, current	3,445	4,750	Accrued interest	53,746	0
Inventory	24,714	23,578	Other liabilities	<u>24,305</u>	<u>24,451</u>
Prepaid expenses	<u>97,367</u>	<u>8,654</u>	<b><u>Total Current Liabilities</u></b>	230,459	255,432
<b><u>Total Current Assets</u></b>	3,920,522	3,846,475			
			<b><u>LONG-TERM LIABILITIES</u></b>		
			Notes payable - net	587,684	644,220
			Bonds payable - net	5,878,210	0
<b><u>PROPERTY, PLANT AND EQUIPMENT</u></b> - net	30,021,305	25,761,314	Liability for developer's deposits	147,434	146,952
			Unearned revenue	<u>88,422</u>	<u>88,422</u>
			<b><u>Total Long-Term Liabilities</u></b>	6,701,750	879,594
<b><u>OTHER ASSETS</u></b>			<b><u>NET POSITION</u></b>		
Funds held by trustee	2,550,069	0	Invested in capital assets, net of related debt	24,227,889	25,062,115
Tap-in and assessments receivable - net	<u>105,879</u>	<u>111,918</u>	Restricted for debt service	1,761,896	0
<b><u>Total Other Assets</u></b>	<u>2,655,948</u>	<u>111,918</u>	Unrestricted	<u>3,675,781</u>	<u>3,522,566</u>
			<b><u>Total Net Position</u></b>	<u>29,665,566</u>	<u>28,584,681</u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 36,597,775</u>	<u>\$ 29,719,707</u>	<b><u>TOTAL LIABILITIES AND NET POSITION</u></b>	<u>\$ 36,597,775</u>	<u>\$ 29,719,707</u>

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b><u>OPERATING REVENUES</u></b>	\$ 3,493,032	\$ 3,214,531
<b><u>OPERATING EXPENSES</u></b>		
Materials and supplies	45,129	41,411
Chemicals	31,164	34,990
Lab supplies	22,832	24,917
Vehicles	30,246	31,444
Equipment/facilities	47,592	32,342
Maintenance and repair	267,437	231,886
Utilities	203,964	208,601
Biosolids	82,223	82,195
Salaries and wages	927,356	871,329
Employee benefits	285,380	265,803
Travel and meetings	10,581	10,979
Computers and networking	23,599	15,477
POTW fees	30,382	32,389
Professional services	116,293	110,277
Insurance	89,257	78,599
Administrative services	40,524	58,624
Depreciation	669,159	655,513
<b><u>Total Operating Expenses</u></b>	<u>2,923,118</u>	<u>2,786,776</u>
<b><u>Income from Operations</u></b>	569,914	427,755

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>		
Tap-in fees	125,364	154,791
Interest income	27,635	12,274
Interest expense	( 22,674)	( 53,038)
Gain (Loss) on disposal of assets	0	( 8,516)
Bond costs	( 129,172)	0
Other income (expense)	<u>9,818</u>	<u>13,028</u>
<b><u>Total Nonoperating Revenues (Expenses)</u></b>	<u>10,971</u>	<u>118,539</u>
<b><u>Net Income Before Capital Contributions</u></b>	580,885	546,294
<b><u>Capital Contributions</u></b>		
Developer Contributions to Systems	0	887,936
Capital grant	<u>500,000</u>	<u>56,000</u>
<b><u>Total Capital Contributions</u></b>	<u>500,000</u>	<u>943,936</u>
<b><u>Change in Net Position</u></b>	1,080,885	1,490,230
Net position, beginning of year	<u>28,584,681</u>	<u>27,094,451</u>
<b><u>NET POSITION, END OF YEAR</u></b>	<u>\$ 29,665,566</u>	<u>\$ 28,584,681</u>

See the accompanying notes to the financial statements.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Statements of Cash Flows

for the years ended  
December, 2016 and 2015

Increase (Decrease) in Cash

	<u>2016</u>	<u>2015</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Cash received from customers	\$ 3,414,559	\$ 3,281,593
Cash paid to employees	( 927,203)	( 895,799)
Cash paid to suppliers	<u>( 1,429,956)</u>	<u>( 1,312,841)</u>
<b><u>Net Cash Flows Provided by Operating Activities</u></b>	1,057,400	1,072,953
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>		
Bond costs	( 129,172)	0
Receipt of tap-in fees	132,708	162,637
Principal payments on bonds	0	( 1,340,000)
Principal payments on notes	( 54,566)	( 52,729)
Payment of interest	( 25,090)	( 66,901)
Purchase of capital assets	( 4,947,260)	( 354,075)
Proceeds from sale of assets	0	7,300
Proceeds from grants	556,000	0
Proceeds from bonds	<u>5,885,626</u>	<u>0</u>
<b><u>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</u></b>	1,418,246	( 1,643,768)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
(Increase) Decrease in funds held by trustee	( 2,550,069)	868,958
Increase in certificate of deposit	( 400,000)	0
Receipt of interest	27,635	12,274
Receipt of rent and royalties	<u>10,623</u>	<u>8,683</u>
<b><u>Net Cash Flows Provided by (Used in) Investing Activities</u></b>	<u>( 2,911,811)</u>	<u>889,915</u>
<b><u>Net Change in Cash</u></b>	( 436,165)	319,100
Cash and cash equivalents, beginning of year	<u>3,001,592</u>	<u>2,682,492</u>
<b><u>CASH AND CASH EQUIVALENTS, END OF YEAR</u></b>	<u>\$ 2,565,427</u>	<u>\$ 3,001,592</u>

See the accompanying notes to the financial statements.

PETERS TOWNSHIP SANITARY AUTHORITY

Statements of Cash Flows (Continued)

for the years ended  
December 31, 2016 and 2015

Increase (Decrease) in Cash

	<u>2016</u>	<u>2015</u>
<b><u>RECONCILIATION OF OPERATING INCOME</u></b>		
<b><u>TO NET CASH FLOWS FROM OPERATING</u></b>		
<b><u>ACTIVITIES:</u></b>		
Operating income	\$ 569,914	\$ 427,755
Depreciation	669,159	655,513
(Increase) decrease in:		
Accounts receivable	( 78,473)	67,062
Inventory	( 1,136)	1,691
Prepaid expenses	( 88,713)	65,577
Increase (decrease) in:		
Accounts payable	( 13,687)	( 7,290)
Payroll and wages payable	0	( 24,470)
Other liabilities	( 146)	( 22,350)
Liability for developers' deposits	482	( 90,535)
Unearned revenue	0	0
	<u>0</u>	<u>0</u>
<b><u>NET CASH FLOWS PROVIDED BY OPERATING</u></b>		
<b><u>ACTIVITIES</u></b>	<u>\$ 1,057,400</u>	<u>\$ 1,072,953</u>

See the accompanying notes to the financial statements.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 1 - NATURE OF OPERATIONS**

**PETERS TOWNSHIP SANITARY AUTHORITY** is a municipal authority formed pursuant to the Municipal Authorities Act of 1945, 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, 2016 and 2015

**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 statements 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, 2016 and 2015

**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, 2016 or 2015.

**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, 2016 and 2015, the carrying amount of the Authority's cash deposits and investments, including trust accounts, was \$5,515,496 and \$3,001,592, 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% is added monthly to any unpaid balance.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**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, 2016 or 2015.

**Other Receivables**

Other receivables consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Grant revenue	\$ 0	\$ 56,000
Rent receivable	0	805
	<u>\$ 0</u>	<u>\$ 56,805</u>

**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.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property, Plant and Equipment (Continued)**

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.

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. Capitalized interest totaled \$140,635 and \$0 at December 31, 2016 and 2015, respectively.

Depreciation expense for the years ended December 31, 2016 and 2015, amounted to \$669,159 and \$655,513, 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.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Funds Held by Trustee**

As required under the Series 2016 bond trust indenture, a number of special trust accounts were established by the Authority. Funds held by the Trustee were 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 were 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.

During the year ended December 31, 2015, the outstanding bonds Series of 2009 were paid in full and the funds held by trustee were released.

Invested funds consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Money Market	\$ 1,654,010	\$ 0
Federal Government Obligation Fund	<u>896,059</u>	<u>0</u>
	<u>\$ 2,550,069</u>	<u>\$ 0</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.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences (Continued)**

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. For the years ended December 31, 2016 and 2015, the Authority had accrued liabilities for these unused days of approximately \$14,600 and \$14,400, respectively. This amount is included under the caption "Other liabilities" in the accompanying Statements of Net Position.

**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.

**Statement Reclassifications**

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

**Subsequent Events**

In accordance with Accounting Standards Codification (ASC) 855-10, *Subsequent Events*, **PETERS TOWNSHIP SANITARY AUTHORITY** has evaluated subsequent events through May 10, 2017, 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.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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.

The following tables present the Authority's investments carried at fair value on a recurring basis as of December 31, 2016 and 2015, in accordance with the ASC 820-10 valuation hierarchy defined above:

**December 31, 2016**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held by trustee	\$ 2,550,069	\$ 0	\$ 0	\$ 2,550,069
Certificate of deposit	0	400,000	0	400,000
	<u>\$ 2,550,069</u>	<u>\$ 400,000</u>	<u>\$ 0</u>	<u>\$ 2,950,069</u>

**December 31, 2015**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held by trustee	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Other financial instruments consist of receivables, payables and accruals, and notes and bonds payable. The recorded values of receivables, payables, and accrued liabilities approximate fair value based on their short-term nature. The recorded values of the notes 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 who elected not 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, 2016 and 2015, from this plan amounted to \$9,965 and \$13,302, 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, 2016 and 2015, \$10,925 and \$14,932, respectively, was outstanding for these fees.

In addition to the above, the Authority also has outstanding deferred agricultural assessments receivable in the amount of \$88,434 for each of the years ended December 31, 2016 and 2015. These amounts will remain outstanding until the properties are no 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.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 4 - TAP-IN AND ASSESTMENTS RECEIVABLE (CONTINUED)**

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

	<u>2016</u>	<u>2015</u>
Tap-in and assessments receivable - current	\$ 3,445	\$ 4,750
Tap-in and assessments receivable - net	<u>105,879</u>	<u>111,918</u>
	<u>\$ 109,324</u>	<u>\$ 116,668</u>

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following at December 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Reclassif- cations</u>	<u>Ending Balance</u>
<b>Non-Depreciable</b>				
<b>Assets:</b>				
Land	\$ 675,008	\$ 0	\$ 0	\$ 675,008
Construction in progress	1,808,328	4,800,785	(413,772)	6,195,341
<b>Depreciable</b>				
<b>Assets:</b>				
Site improvement	193,535	0	0	193,535
Sewer plants	7,083,328	0	0	7,083,328
Office complex	1,141,545	8,980	0	1,150,525
Software/ Computers	154,646	6,542	0	161,188
Permits	42,349	0	0	42,349
Machinery and equipment	3,624,443	51,834	121,433	3,797,710
Vehicles	540,613	58,324	0	598,937
Process Piping	815,770	0	0	815,770
Power feed mains	225,500	0	0	225,500

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Reclassif- cations</u>	<u>Ending Balance</u>
<b>Depreciable</b>				
<b>Assets:</b>				
<b>(Continued)</b>				
Collector sewers	20,110,932	0	26,287	20,137,219
Force mains	422,944	0	260,649	683,593
Interceptors	3,034,525	0	0	3,034,525
Pump stations	1,052,863	2,685	0	1,055,548
<b><u>Total, at Cost</u></b>	40,926,329	4,929,150	( 5,403)	45,850,076
<b>Less accumulated</b>				
<b>Depreciation:</b>				
Site improvement	193,536	0	0	193,536
Sewer plants	3,478,826	182,787	0	3,661,613
Office complex	140,791	23,080	0	163,871
Software/ Computers	99,361	10,169	0	109,530
Permits	14,207	8,469	0	22,676
Machinery and equipment	2,758,318	74,357	( 5,403)	2,827,272
Vehicles	350,391	35,798	0	386,189
Process Piping	766,782	5,339	0	772,121
Power feed mains	222,933	2,567	0	225,500
Collector sewers	5,945,263	246,664	0	6,191,927
Force mains	35,972	4,090	0	40,062
Interceptors	714,509	39,133	0	753,642
Pump stations	444,126	36,706	0	480,832
<b>Total accumulated depreciation</b>	<u>15,165,015</u>	<u>669,159</u>	<u>( 5,403)</u>	<u>15,828,771</u>
<b><u>Fixed assets, net</u></b>	<u>\$25,761,314</u>	<u>\$ 4,259,991</u>	<u>\$ 0</u>	<u>\$30,021,305</u>

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**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 was in critical status for the plan year beginning January 1, 2010. 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, in consultations with the Fund's actuary, legal counsel and investment adviser, adopted a rehabilitation plan which was scheduled to run through December 31, 2020. This plan includes benefit adjustments, increased contribution levels, and changes in investment policies. As a result, the Fund is projected to achieve an improved funded status sooner, but is still currently in "critical" status.

The Authority's current union contract, which runs through January 31, 2021, has provided for maximum hourly contribution rates, ranging from \$3.54 to \$4.82, 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 \$53,137 and \$50,248 for the years ended December 31, 2016 and 2015, respectively.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2016 and 2015

**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 years ended December 31, 2016 and 2015, there were six plan members. The Authority's total contributions for 2016 and 2015 were \$23,427 and \$23,417, 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 17, 2016, the Authority issued the Guaranteed Sewer Revenue Bonds, Series of 2016 in the amount of \$5,825,000. These bonds were issued at a premium of \$60,626 which will be amortized over the life of the bonds. Proceeds from the sale of the 2016 bonds are to be used to: 1) fund various capital projects including the construction of the Donaldson's Crossroads Water Pollution Control Plant; 2) pay capitalized interest on the Bonds; and 3) pay the costs and expenses of issuing the Bonds. The bonds are payable in annual installments with principal payments ranging from \$5,000 to \$340,000 at interest rates ranging from 1% to 3.35%.

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 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 Sewer Revenue Bonds Series 2009 were paid in full during the year ended December 31, 2015.

	<u>2016</u>	<u>2015</u>
Bonds Payable Series 2016	\$ 5,825,000	\$ 0
Less current portion	<u>5,000</u>	<u>0</u>
	5,820,000	0
Bonds payable, net of current portion plus bond premium - net	<u>58,210</u>	<u>0</u>
<b><u>Bonds Payable</u></b> - net	<u>\$ 5,878,210</u>	<u>\$ 0</u>

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

**Notes Payable**

	<u>2016</u>	<u>2015</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. This loan is collateralized by a third lien position on the assets of the Authority	\$ 471,438	\$ 504,730
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 and is collateralized by the assets of the Authority.	<u>173,195</u>	<u>194,469</u>
	644,633	699,199
Less: current maturities included in current liabilities	<u>56,949</u>	<u>54,979</u>
<b><u>Notes Payable</u></b> - net	<u>\$ 587,684</u>	<u>\$ 644,220</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>
<b><u>Bonds</u></b>					
Series 2016	\$ 0	\$5,825,000	\$ 0	\$5,825,000	\$ 5,000
<b><u>Notes</u></b>					
Bank loan	504,730	0	33,292	471,438	35,078
Pennvest Loan	<u>194,469</u>	<u>0</u>	<u>21,274</u>	<u>173,195</u>	<u>21,871</u>
<b><u>Total Notes Payable</u></b>	<u>699,199</u>	<u>0</u>	<u>54,566</u>	<u>644,633</u>	<u>56,949</u>
<b><u>Total Notes Payable and Bonds Payable</u></b>	<u>\$ 699,199</u>	<u>\$5,825,000</u>	<u>\$ 54,566</u>	<u>\$6,469,633</u>	<u>\$ 61,949</u>

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

In addition, during the year ended December 31, 2015, in connection with the Donaldson's Crossroads Plant Expansion Project, the Authority obtained approval for an additional Pennvest loan in an amount not to exceed \$11 million. Proceeds had not yet been drawn on this loan as of December 31, 2016.

Total debt service payments on the bonds and notes payable are as follows:

<u>Interest Rate</u>	<u>For the Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1.0%	2017	\$ 61,949	\$ 183,945	\$ 245,894
3.0%	2018	248,993	181,852	430,845
3.0%	2019	256,112	174,033	430,145
3.0%	2020	263,310	165,985	429,295
2.0%	2021	270,588	157,707	428,295
2.0%-2.1%	2022 - 2026	1,389,843	763,130	2,152,973
2.15%-3.0%	2027 - 2031	1,273,838	532,076	1,805,914
3.0%	2032 - 2036	1,410,000	347,253	1,757,253
3.15%-3.35%	2037 - 2040	1,295,000	109,595	1,404,595
	Total	<u>\$ 6,469,633</u>	<u>\$ 2,615,576</u>	<u>\$ 9,085,209</u>

**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.

A small portion of the Authority's public sanitary sewer system, i.e. approximately eighty (80) households, is subject to a DEP Consent Order. At this time, the terms of the Consent Order should not materially affect the anticipated expenditures of the Authority.

**PETERS TOWNSHIP SANITARY AUTHORITY**

Notes to the Financial Statements

December 31, 2016 and 2015

**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, 2016, the Authority contracted with various insurance groups to provide coverages as follows:

Commercial Property	\$21,424,414
General Liability	\$1,000,000/occurrence \$2,000,000 aggregate
Public Officials	\$1,000,000
Auto Liability	\$1,000,000
Flood/Earthquake	\$2,000,000/occurrence \$4,000,000 aggregate
Inland Marine	\$50,000 \$150,000 aggregate
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.

**NOTE 10 - OPERATING REVENUES**

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

	<u>2016</u>	<u>2015</u>
Residential sewer	\$ 2,631,815	\$ 2,413,426
Non-residential sewer	752,806	680,104
Other	<u>108,411</u>	<u>121,001</u>
<b><u>Total Operating Revenues</u></b>	<b><u>\$ 3,493,032</u></b>	<b><u>\$ 3,214,531</u></b>

**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, 2016 and 2015, of \$202,398. The current lease runs from April 1, 2016 to March 31, 2017 with monthly rentals of \$935 discounted to \$885 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 revenue in 2016 and 2015 was \$9,814 and \$9,485, respectively, and is included in other income in the accompanying financial statements.