

PETERS TOWNSHIP SANITARY AUTHORITY

**Audited Financial Statements and
Required Supplementary Information**

**For the Years Ended
December 31, 2020 and 2019**

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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 the statements of net position as of December 31, 2020 and 2019, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the 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 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.

Auditors' Responsibility (continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of **PETERS TOWNSHIP SANITARY AUTHORITY** as of December 31, 2020 and 2019, and the respective changes in its net position and cash flows thereof 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 xiii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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, Belezyk, & Associates, P.C.

Eighty Four, Pennsylvania

May 12, 2021

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2020

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, 2020.

DESCRIPTION OF THE ORGANIZATION

PETERS TOWNSHIP SANITARY AUTHORITY, a municipal corporation organized under the provisions of the Municipal Authorities Act of 1945 as amended, was incorporated on March 20, 1964, and its corporate life currently extends until August 1, 2050. 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 99 miles of sewers, and the Donaldson's Crossroads Water Pollution Control Plant (DCWPCP) with a design flow of 1.75 MGD and approximately 45 miles of sewers. 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.

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.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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, 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 \$1,662,000 or 5.0% between 2019 and 2020.
- Operating revenues increased approximately \$651,000 or 17.0% over 2019.
- Operating expenses increased approximately \$448,000 or 14.3% over the prior fiscal year.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2020

FINANCIAL ANALYSIS (continued)

Net Position

Total net position increased by approximately \$1,662,000 during the fiscal year ended December 31, 2020, as summarized below: (in thousands)

	<u>ASSETS</u>		
	<u>2020</u>	<u>2019</u>	<u>Increase / (Decrease)</u>
<u>CURRENT ASSETS</u>			
Cash and investments	\$ 4,974	\$ 4,165	\$ 809
Receivables	1,050	895	155
Inventory	40	45	(5)
Prepaid expenses	114	108	6
Other current assets	<u>0</u>	<u>70</u>	<u>(70)</u>
<u>Total Current Assets</u>	6,178	5,283	895
<u>PROPERTY, PLANT AND EQUIPMENT</u> – net	50,741	49,226	1,515
<u>OTHER ASSETS</u>			
Funds held by trustee	0	0	0
Tap-in and assessments receivable – net	<u>95</u>	<u>97</u>	<u>(2)</u>
<u>Total Other Assets</u>	<u>95</u>	<u>97</u>	<u>(2)</u>
<u>TOTAL ASSETS</u>	<u>\$ 57,014</u>	<u>\$ 54,606</u>	<u>\$ 2,408</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2020

FINANCIAL ANALYSIS (continued)

Net Position (continued)

	<u>LIABILITIES AND NET POSITION</u>		
	<u>2020</u>	<u>2019</u>	<u>Increase / (Decrease)</u>
<u>CURRENT LIABILITIES</u>			
Notes payable – current portion	\$ 842	\$ 635	\$ 207
Bonds payable – current portion	205	200	5
Payables and accruals	<u>491</u>	<u>1,067</u>	<u>(576)</u>
<u>Total Current Liabilities</u>	1,538	1,902	(364)
<u>LONG-TERM LIABILITIES</u>			
Notes payable – net	15,165	13,868	1,297
Bonds payable – net	5,078	5,285	(207)
Other long-term liabilities	<u>149</u>	<u>129</u>	<u>20</u>
<u>Total Long-Term Liabilities</u>	20,392	19,282	1,110
<u>NET POSITION</u>			
Invested in capital assets – net of related debt	29,325	28,890	435
Unrestricted	<u>5,759</u>	<u>4,532</u>	<u>1,227</u>
<u>Total Net Position</u>	<u>35,084</u>	<u>33,422</u>	<u>1,662</u>
<u>TOTAL LIABILITIES AND NET POSITION</u>	<u>\$ 57,014</u>	<u>\$ 54,606</u>	<u>\$ 2,408</u>

A portion of net position, approximately \$29,325,000, 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**, there were no restricted net assets at December 31, 2020. Unrestricted net position is available to fund future projects or future operations. The balance of unrestricted net position increased by approximately \$1,227,000 during the 2020 fiscal year. This increase was the result of rate increases that went into effect January 1, 2020, and the capital improvements that were constructed and placed into service.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2020

FINANCIAL ANALYSIS (continued)

Change in Net Position

Operating revenues for the years ended December 31, 2020 and 2019, consisted of sewer service revenues in the amounts of \$4,469,363 and \$3,818,410, respectively.

The above comparison reflects an increase in operating revenues of approximately \$651,000 or 17.0% over 2019 levels, due to a combination of the rate increase, increase in customers from new developments, and an increase in consumption due to a dry summer.

A comparative analysis of operating expenses is as follows for the years ended December 31, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>	<u>Amount Change</u>	<u>% Change</u>
<u>OPERATING EXPENSES</u>				
Materials and supplies	\$ 39	\$ 39	\$ 0	0.0%
Chemicals	52	64	(12)	(18.8)
Lab supplies	46	61	(15)	(24.6)
Vehicles	17	37	(20)	(54.1)
Equipment/facilities	58	38	20	52.6
Maintenance and repair	111	315	(204)	(64.8)
Utilities	200	195	5	2.6
Biosolids	113	105	8	7.6
Salaries and wages	929	930	(1)	(0.1)
Employee benefits	307	305	2	0.7
Travel and meetings	7	11	(4)	(36.4)
Computers and networking	30	18	12	66.7
POTW fees	48	43	5	11.6
Professional services	93	78	15	19.2
Insurance	103	97	6	6.2
Administrative services	45	42	3	7.1
Depreciation	<u>1,381</u>	<u>753</u>	<u>628</u>	<u>83.4</u>
<u>Total Operating Expenses</u>	<u>\$ 3,579</u>	<u>\$ 3,131</u>	<u>\$ 448</u>	<u>14.3%</u>

Total operating expenses increased overall by approximately \$448,000 from the prior year. The largest increase was in depreciation. The new DC treatment facility went online at the end of 2019, therefore 2020 was the first full year of depreciation of that asset, and a new pump station was also constructed in 2020. The next largest dollar increases were in equipment/facilities, professional services, and computers and networking. These expenses vary year to year depending on necessities. In 2020, there

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2020

FINANCIAL ANALYSIS (continued)

Change in Net Position (continued)

were several factors attributing to the increases. The equipment/facilities expenses increased due to the COVID-19 virus. There were purchases made in order to provide a safe working environment for the employees. There was also a maintenance repair made at one of the treatment plants. The chemical feed tubing was replaced. The computers and networking cost increase was due to the replacement and upgrade of the networking software and monitoring system. The POTW fees are part of an inter-municipal agreement, and there was a rate increase enacted. The professional services increase was due to COVID-19 guidance, and the negotiations on the 5-year union bargaining agreement that expires February 1, 2021.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) include tap-in fees, interest income and expense, rental income, and gain or loss on disposal of assets. These categories resulted in approximately \$(92,000) and \$160,000 in net revenues (expenses), respectively, for the years ended December 31, 2020 and 2019.

Income before capital contributions decreased from approximately \$847,000 in 2019 to approximately \$799,000 in 2020, a negative swing of approximately \$48,000.

Capital contributions consist primarily of developer contributions to systems and capital grants. Total capital contributions for the years ended December 31, 2020 and 2019, were \$862,934 and \$909,319, respectively. There were no capital grants received during the year ended December 31, 2020.

BUDGETARY INFORMATION

The following is a comparison of actual revenues and expenses for the year ended December 31, 2020, to the original budgeted amounts for the same time period (in thousands). Depreciation expense in the amount of approximately \$1,381,000 is not included in the actual column for operations as this is a non-cash item and therefore not included in the budgeting process. The line item Equipment Replacement Allowance is a budgetary item for replacements in the system that would extend or replace the useful life of an asset and that would have been capitalized for financial statement purposes. Any balance remaining (the under budget amount) is transferred to the capital improvements fund in order to fund the capital plan.

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Management Discussion and Analysis

December 31, 2020

BUDGETARY INFORMATION (continued)

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<u>OPERATING REVENUES</u>			
Sewer service:			
Residential	\$ 3,521	\$ 3,284	\$ 237
Non-residential	779	905	(126)
<u>Total Sewer Service Revenues</u>	4,300	4,189	111
Miscellaneous operating revenues	169	99	70
<u>Total Operating Revenues</u>	<u>\$ 4,469</u>	<u>\$ 4,288</u>	<u>\$ 181</u>

As indicated above, sewer service revenues were over budget by approximately \$111,000, primarily due to increased water consumption due to additional new customers in the system from the completion of several housing developments, more customers working from home during the pandemic, and a very dry summer, which resulted in more outside watering.

Miscellaneous operating revenues were over budget by approximately \$70,000. This was a result of greater demand for dye testing required for property sales and transfers, larger returns on investment interest earnings, and the enrollment in the curtailment program for 2020/2021.

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<u>OPERATING EXPENSES</u>			
Materials and supplies	\$ 39	\$ 50	\$ (11)
Chemicals	52	72	(20)
Lab supplies	46	50	(4)
Vehicles	17	31	(14)
Equipment/facilities	58	57	1
Maintenance and repair	111	317	(206)
Utilities	200	203	(3)
Biosolids	113	96	17
Salaries and wages	929	954	(25)
Employee benefits	307	324	(17)
Travel and meetings	7	14	(7)
Computers and networking	30	28	2
POTW fees	48	49	(1)
Professional services	93	88	5
Insurance	103	109	(6)
Administrative services	45	48	(3)
Equipment replacement allowance	0	412	(412)
<u>Total Operating Expenses</u>	<u>\$ 2,198</u>	<u>\$ 2,902</u>	<u>\$ (704)</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2020

BUDGETARY INFORMATION (continued)

Total operating expenses were under budget by approximately \$704,000 as illustrated above. However, when the equipment replacement allowance is subtracted, the amount under budget is approximately \$292,000. The largest variance categories were maintenance and repair, due to no urgent repairs required and the postponement of the 2020 rehabilitation project, and salaries and wages, due to the reduction of hours of an office employee and no increase in the union health insurance.

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<u>NONOPERATING</u>			
<u>REVENUES/(EXPENSES)</u>			
Tap-in fees and assessments	\$ 270	\$ 191	\$ 79
Interest income	27	6	21
Interest expense	(309)	(468)	159
Loss on disposal of assets	(89)	0	(89)
Other income (expense)	9	9	0
<u>Total Nonoperating</u>			
<u>Revenues (Expenses)</u>	<u>\$ (92)</u>	<u>\$ (262)</u>	<u>\$ 170</u>

Total nonoperating revenues/expenses were over budget by approximately \$170,000 as illustrated above. Tap-in fees were over budget due to several new housing developments proceeding earlier than planned. Interest income and interest expense were over budget due to higher yields and greater cash balances to invest. The interest expense was under budget due to the capitalization of interest on the new treatment plant. Loss on disposal of assets was not budgeted.

Results of Operations

Operating revenues were sufficient to meet all operating expenses, with income before capital contributions of \$799,368. Ideally, this net increase should approach or surpass 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 depreciation expense, it does include in its operating budget a line item for “equipment replacement allowance”. The combination of nonoperating revenue and equipment replacement allowance will normally approximate depreciation expense. The Authority's policy of restricting the use of nonoperating 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, 2020

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 2020, planned capital expenditures totaled \$4,011,868, with \$2,878,354 actually expended. The difference in the amount expended was attributed to the delay of the construction of the Brush Run treatment plant upgrades due to COVID-19.

Major Capital Expenditures during 2020 included the following:

- Completion of construction costs and construction management of the DC Interceptor Replacement Project and the Hidden Brook Sewer Replacement Project
- Construction in Progress – The design completion, bid phase and construction phase of Brush Run Treatment Optimization Upgrade Project
- Construction in Progress – Construction costs for the Stonehenge trunk sewer replacement
- Engineering associated with an update to the Piney Fork 537 Sewage facilities planning

The Authority funds its capital improvement plan by a self-imposed restriction on the use of its tap-in fee revenue and other nonoperating 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, 2020

CAPITAL ASSETS

At December 31, 2020, the Authority had approximately \$50,471,000 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 \$1,515,000 over the prior year, as follows (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Reclassifications</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 675	\$ 0	\$ 0	\$ 675
Construction in progress	4,948	2,842	(1,071)	6,719
Depreciable Assets:				
Administrative	1,336	5	(4)	1,337
Sewer system	27,479	92	970	28,541
Treatment	<u>31,287</u>	<u>47</u>	<u>0</u>	<u>31,334</u>
Total – at cost	65,725	2,986	(105)	68,606
Less accumulated depreciation:				
Administrative	(372)	(38)	2	(408)
Sewer system	(9,175)	(409)	14	(9,570)
Treatment	<u>(6,952)</u>	<u>(935)</u>	<u>0</u>	<u>(7,887)</u>
Total accumulated depreciation	<u>(16,499)</u>	<u>(1,382)</u>	<u>16</u>	<u>(17,865)</u>
<u>NET CAPITAL ASSETS</u>	<u>\$ 49,226</u>	<u>\$ 1,604</u>	<u>\$ (89)</u>	<u>\$ 50,741</u>

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

- The purchase of the fixed asset software, and a computer replacement.
- Changes to Machinery and equipment related to the pump replacements and the treatment plant, and the purchase of an air conditioner unit.
- Additions to the Collector sewers were attributed to expenditures related to engineering and construction costs for the Donaldson’s Crossroads and Hidden Brook sewer replacements, and the new Stonehenge interceptor.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2020

LONG-TERM DEBT

At December 31, 2020, the Authority had approximately \$21,241,000 in bonds and notes payable as follows: (in thousands). Total proceeds of \$2,135,000 were drawn down on the 2019 Pennvest loan during 2020 (see Note 7.)

	Balance Beginning of Year	Additions	Reductions	Balance End of Year
Sewer Revenue				
Bonds, Series 2016	\$ 5,435	\$ 0	\$ (200)	\$ 5,235
Notes payable	<u>14,503</u>	<u>2,135</u>	<u>(632)</u>	<u>16,006</u>
<u>TOTAL</u>	<u>\$ 19,938</u>	<u>\$ 2,135</u>	<u>\$ (832)</u>	<u>\$ 21,241</u>

CASH FLOW

Net cash and cash equivalents increased by approximately \$792,000 in 2020, or 24.4%. This was primarily attributed to increase of the sewer rates, and higher customer billings and collections. The net cash flow provided by operating activities increased by approximately \$292,000 or 18.7%, with the operating inflows and outflows remaining substantially proportional from year to year. The net cash flow from capital, financing, and investing activities related to the activity for capital projects. The inflow of cash from tap-in fees decreased by approximately \$239,000 or 46.8%, primarily due to construction of a large senior living complex in the prior year that required excess tap-ins. Overall, the cash and cash equivalents balance of approximately \$4 million is sufficient to meet current obligations and fund the capital plan, 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.

BUDGET FOR 2021

The estimated revenue requirements to meet 2021 operating expenses and debt service are approximately \$4.6 million.

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Management Discussion and Analysis

December 31, 2020

BUDGET FOR 2021 (continued)

The significant factors considered in developing the 2021 operating budget include:

- Overall operating expenses are projected to increase by typical inflationary rates. Also, increased treatment expense as the new plant is online.
- The implementation of the annual rehabilitation project that was postponed in 2020.
- The hiring of a part-time administrative personnel.
- The non-operating expenses which include interest expense associated with the borrowed funds for the Donaldson’s Crossroads treatment plant replacement project and the Conveyance System Sewer Replacement project.

The 2021 capital plan priorities are budgeted at \$2.8 million, including the costs related to the Brush Run Treatment Plant Optimization Upgrade project, a new sewer line camera, new vehicle, and sewage facilities planning expenses.

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 projected residential customer in 2020 was \$485 annually, which equates to 0.39% 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 2021 are as follows:

Residential and Non-Residential Establishments

Minimum charge	\$42.00/qtr/EDU
Usage	\$8.10/1,000 gallons

FUTURE USER RATE INCREASES

For the last several years the Authority has raised rates gradually to support all the newly acquired debt service. The debt service was for a series of major projects, including the new Donaldson’s Crossroads treatment plant, the upgrade to the conveyance system, and the Brush Run treatment plant’s upgrade to a UV system. Therefore, the rates will raise accordingly to inflationary rates for normal operating expenses if needed. When evaluating the 2022 budget, and based upon new customers in the system, there may be a 3-4% rate increase implemented.

PETERS TOWNSHIP SANITARY AUTHORITY

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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, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>	<u>LIABILITIES AND NET POSITION</u>	<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS</u>			<u>CURRENT LIABILITIES</u>		
Cash and cash equivalents	\$ 4,029,980	\$ 3,238,430	Notes payable – current portion	\$ 841,590	\$ 635,259
Certificates of deposit	943,862	926,023	Bonds payable – current portion	205,000	200,000
Accounts receivable	1,048,161	893,173	Accounts payable	290,023	647,113
Tap-in and assessments receivable – current	2,115	2,490	Construction payable	127,176	347,527
Inventory	39,845	44,879	Accrued interest	64,305	62,948
Prepaid expenses	113,615	108,086	Other liabilities	9,600	9,248
Other current assets	<u>0</u>	<u>69,753</u>			
<u>Total Current Assets</u>	<u>6,177,578</u>	<u>5,282,834</u>	<u>Total Current Liabilities</u>	<u>1,537,694</u>	<u>1,902,095</u>
			<u>LONG-TERM LIABILITIES</u>		
<u>PROPERTY, PLANT AND EQUIPMENT</u> – net	50,741,335	49,225,966	Notes payable – net	15,164,870	13,867,616
			Bonds payable – net	5,077,886	5,285,522
			Other noncurrent liabilities	<u>149,493</u>	<u>128,686</u>
			<u>Total Long-Term Liabilities</u>	<u>20,392,249</u>	<u>19,281,824</u>
<u>OTHER ASSETS</u>			<u>NET POSITION</u>		
Funds held by trustee	6	120	Invested in capital assets – net of related debt	29,324,814	28,890,042
Tap-in and assessments receivable – net	<u>95,068</u>	<u>96,741</u>	Unrestricted	<u>5,759,230</u>	<u>4,531,700</u>
<u>Total Other Assets</u>	<u>95,074</u>	<u>96,861</u>	<u>Total Net Position</u>	<u>35,084,044</u>	<u>33,421,742</u>
<u>TOTAL ASSETS</u>	<u>\$ 57,013,987</u>	<u>\$ 54,605,661</u>	<u>TOTAL LIABILITIES AND NET POSITION</u>	<u>\$ 57,013,987</u>	<u>\$ 54,605,661</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, 2020 and 2019

	2020	2019
<u>OPERATING REVENUES</u>	\$ 4,469,363	\$ 3,818,410
<u>OPERATING EXPENSES</u>		
Materials and supplies	38,553	38,629
Chemicals	52,450	64,435
Lab supplies	46,331	60,730
Vehicles	16,837	37,237
Equipment/facilities	57,977	38,361
Maintenance and repair	111,012	314,603
Utilities	199,898	194,959
Biosolids	113,054	104,804
Salaries and wages	928,748	930,488
Employee benefits	306,879	304,710
Travel and meetings	6,977	11,562
Computers and networking	29,770	17,795
POTW fees	48,145	42,642
Professional services	92,853	78,366
Insurance	102,699	96,793
Administrative services	45,069	41,624
Depreciation	1,381,478	753,402
<u>Total Operating Expenses</u>	3,578,730	3,131,140
<u>Income from Operations</u>	890,633	687,270
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Tap-in fees	270,185	508,149
Interest income	27,146	24,511
Interest expense	(309,065)	(309,842)
Loss on disposal of assets	(88,987)	(73,518)
Other income	9,456	10,375
<u>Total Nonoperating Revenues (Expenses)</u>	(91,265)	159,675
<u>Income Before Capital Contributions</u>	799,368	846,945

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Capital Contributions</u>		
Developer contributions to systems	862,934	609,319
Capital grant	<u>0</u>	<u>300,000</u>
<u>Total Capital Contributions</u>	<u>862,934</u>	<u>909,319</u>
<u>Change in Net Position</u>	1,662,302	1,756,264
Net position – beginning of year	<u>33,421,742</u>	<u>31,665,478</u>
<u>NET POSITION – END OF YEAR</u>	<u>\$ 35,084,044</u>	<u>\$ 33,421,742</u>

See the accompanying *Notes to the Financial Statements*

PETERS TOWNSHIP SANITARY AUTHORITY
 Statements of Cash Flows
 for the years ended December 31, 2020 and 2019
 Increase (Decrease) in Cash

	2020	2019
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash received from customers	\$ 4,314,375	\$ 3,805,570
Cash paid to employees	(928,168)	(935,217)
Cash paid to suppliers	(1,535,757)	(1,311,711)
<u>Net Cash Flows Provided by (used in) Operating Activities</u>	1,850,450	1,558,642
<u>CASH FLOWS FROM CAPITAL</u>		
<u>AND RELATED FINANCING ACTIVITIES:</u>		
Receipt of tap-in fees	272,233	511,506
Principal payments on bonds	(200,000)	(195,000)
Principal payments on notes	(631,498)	(583,986)
Payment of interest	(310,344)	(315,657)
Purchase of capital assets	(2,343,251)	(4,739,144)
Proceeds from notes	2,135,083	2,904,236
Grant proceeds	0	300,000
<u>Net Cash Flows Provided by (Used in) Capital and</u>		
<u>Related Financing Activities</u>	(1,077,777)	(2,118,045)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Decrease in funds held by trustee	114	443
Increase in certificates of deposit	(17,839)	(513,513)
Receipt of interest	27,146	24,511
Receipt of rent and royalties	9,456	10,375
<u>Net Cash Flows Provided by</u>		
<u>(Used in) Investing Activities</u>	18,877	(478,184)
<u>Net Change in Cash</u>	791,550	(1,037,587)
Cash and cash equivalents – beginning of year	3,238,430	4,276,017
<u>CASH AND CASH EQUIVALENTS – END OF YEAR</u>	<u>\$ 4,029,980</u>	<u>\$ 3,238,430</u>

See the accompanying *Notes to the Financial Statements*

PETERS TOWNSHIP SANITARY AUTHORITY
 Statements of Cash Flows (continued)
 for the years ended December 31, 2020 and 2019

	2020	2019
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH FLOWS FROM</u>		
<u>OPERATING ACTIVITIES:</u>		
Operating income	\$ 890,633	\$ 687,270
Depreciation	1,381,478	753,402
(Increase) decrease in:		
Accounts receivable	(154,988)	(12,840)
Inventory	5,034	(6,961)
Prepaid expenses	(5,529)	(5,407)
Other current assets	69,753	(69,753)
Increase (decrease) in:		
Accounts payable	(357,090)	189,845
Other liabilities	352	(5,081)
Other noncurrent liabilities	20,807	28,167
 <u>NET CASH FLOWS PROVIDED BY</u>		
<u>OPERATING ACTIVITIES</u>	\$ 1,850,450	\$ 1,558,642
 <u>SCHEDULE OF NONCASH TRANSACTIONS:</u>		
Developer contributions to systems	\$ 862,934	\$ 609,319

See the accompanying *Notes to the Financial Statements*

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

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 2017, the GASB issued Statement No. 87, *Leases*. GASB 87 establishes principles that require a lessee to create a lease asset and a lease liability for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. GASB 87 is effective for reporting periods beginning after June 15, 2021. The Authority is currently assessing the impact, if any, of adopting GASB 87.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. The requirements of this statement are effective for reporting periods beginning after December 15, 2020, and are to be applied prospectively. The Authority is currently assessing the impact of adopting GASB 89.

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, 2020 and 2019

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.

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.

Revenue Recognition

Revenue is generated primarily from sewer services delivered to customers. These contracts contain a single performance obligation, the delivery of sewer services. Revenues are recognized at a point in time, when services are billed. There are generally no significant financing components or variable consideration. Revenues include amounts billed to customers. Billings are based on actual quarterly usage of water, an indicator of the value transferred to the customer. Customer payments are due within 20 days of billing, and none of the contracts with customers have payment terms that exceed one year.

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.

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, 2020 or 2019.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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, 2020 and 2019, the carrying amount of the Authority's cash deposits and investments, including trust accounts, was \$4,973,848 and \$4,164,573, 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.

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.

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 has been 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, 2020 or 2019.

Inventory

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

Property, Plant and Equipment

Additions to property, plant and equipment, are recorded at cost. Major renewals and betterments that extend the useful lives of assets are capitalized.

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

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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.

Depreciation expense for the years ended December 31, 2020 and 2019, amounted to \$1,381,478 and \$753,402, respectively.

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 Plant and Office Complex	50-60 years
Software / Computers	5-7 years
Permits	5 years
Machinery and Equipment	5-20 years
Vehicles	3-5 years
Processing Piping, Power Feed Mains, Collector Sewers, Force Mains, and 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 \$32,154 and \$3,170 at December 31, 2020 and 2019, respectively.

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 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, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Funds Held by Trustee (continued)

Invested funds consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Federal Government Obligation Fund	<u>\$ 6</u>	<u>\$ 120</u>

Compensated Absences

Under the terms of the union contract, employees may bank up to thirty-five (35) 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.

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 businesses and residents.

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.

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.

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 12, 2021, the date the financial statements were available to be issued.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

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.

The following tables present the Authority’s investments carried at fair value on a recurring basis as of December 31, 2020 and 2019, in accordance with the ASC 820-10 valuation hierarchy defined above:

	<u>December 31, 2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held by trustee	\$ 6	\$ 0	\$ 0	\$ 6
Certificates of deposit	<u>0</u>	<u>943,862</u>	<u>0</u>	<u>943,862</u>
	<u>\$ 6</u>	<u>\$ 943,862</u>	<u>\$ 0</u>	<u>\$ 943,868</u>

	<u>December 31, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held by trustee	\$ 120	\$ 0	\$ 0	\$ 120
Certificates of deposit	<u>0</u>	<u>926,023</u>	<u>0</u>	<u>926,023</u>
	<u>\$ 120</u>	<u>\$ 926,023</u>	<u>\$ 0</u>	<u>\$ 926,143</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

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 Assessments Receivable

During the year ended December 31, 2004, the Authority completed the installation of a sewer line in an area that was not sewered as required by the PA Department of Environmental Protection. The homeowners that benefitted from this sewer were assessed a fee. The fee per EDU was \$6,250, and if the owners accepted the assessment, they were given a \$1,000 discount, adjusting the assessment to \$5,250. 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, 2020 and 2019, from this plan amounted to \$1,954 and \$3,149, respectively.

In 2012, the Authority undertook a sewer extension in the Valley View Drive Area. The affected residents were assessed a special purpose tap-in 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, 2020 and 2019, \$6,795 and \$7,647, respectively, was outstanding for these fees.

In addition to the above, the Authority also has outstanding deferred agricultural assessments receivable in the amounts of approximately \$88,400 for each of the years ended December 31, 2020 and 2019. 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.

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

	<u>2020</u>	<u>2019</u>
Tap-in and assessments receivable – current	\$ 2,115	\$ 2,490
Tap-in and assessments receivable – net	<u>95,068</u>	<u>96,741</u>
	<u>\$ 97,183</u>	<u>\$ 99,231</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 5 - Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Reclassifications</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 675,008	\$ 0	\$ 0	\$ 675,008
Construction in progress	<u>4,947,976</u>	<u>2,841,678</u>	<u>(1,070,534)</u>	<u>6,719,120</u>
Total Non-Depreciable Assets	5,622,984	2,841,678	(1,070,534)	7,394,128
Depreciable Assets:				
Administrative	1,335,531	5,462	(4,162)	1,336,831
Sewer system	27,479,410	92,170	969,805	28,541,385
Treatment	<u>31,287,205</u>	<u>46,524</u>	<u>0</u>	<u>31,333,729</u>
Total, at cost	65,725,130	2,985,834	(104,891)	68,606,073
Less accumulated depreciation:				
Administrative	372,013	37,622	(2,378)	407,257
Sewer system	9,174,859	408,601	(13,526)	9,569,934
Treatment	<u>6,952,292</u>	<u>935,255</u>	<u>0</u>	<u>7,887,547</u>
Total Accumulated Depreciation	<u>16,499,164</u>	<u>1,381,478</u>	<u>(15,904)</u>	<u>17,864,738</u>
NET CAPITAL ASSETS	<u>\$ 49,225,966</u>	<u>\$ 1,604,356</u>	<u>\$ (88,987)</u>	<u>\$ 50,741,335</u>

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.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 6 - Pension Plans (continued)

Defined Benefit Plan (continued)

The plan, known as the Laborers' District Council of Western Pennsylvania Pension Fund (the 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 achieved an improved funded status, moving from "critical" to the more favorable "endangered" status. Current projections are that the positive trend will continue in the future.

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 \$82,902 and \$76,138 for the years ended December 31, 2020 and 2019, respectively.

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 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, 2020 and 2019, there were four plan members. The Authority's total contributions for 2020 and 2019 were \$19,103 and \$18,802, respectively.

In addition, the Authority offers a deferred compensation arrangement (457 Plan) to its employees. This Plan is administered by MetLife. During the year ended December 31, 2017, the Authority entered into an additional deferred compensation arrangement administered by International City Management Association Retirement Corporation to provide more options to their employees wishing to contribute retirement funds. Participants can contribute an amount up to eligible compensation to these plans subject to applicable federal regulations.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

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 is being amortized over the life of the bonds. Proceeds from the sale of the 2016 bonds were 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 2% to 3.35%.

Bonds payable at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Bonds Payable, Series 2016	\$ 5,235,000	\$ 5,435,000
Less current portion	<u>205,000</u>	<u>200,000</u>
	5,030,000	5,235,000
Plus bond premium – net	<u>47,886</u>	<u>50,522</u>
<u>Bonds Payable</u> – net	<u><u>\$ 5,077,886</u></u>	<u><u>\$ 5,285,522</u></u>

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

<u>Interest Rate</u>	<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2.00%	2021	\$ 205,000	\$ 143,638	\$ 348,638
2.00%	2022	210,000	139,538	349,538
2.00%	2023	215,000	135,338	350,338
2.00%	2024	220,000	131,038	351,038
2.00%	2025	225,000	126,638	351,638
2.10%-3.00%	2026-2030	1,200,000	559,654	1,759,654
3.00%-3.15%	2031-2035	1,365,000	388,640	1,753,640
3.15%-3.35%	2036-2040	<u>1,595,000</u>	<u>161,809</u>	<u>1,756,809</u>
		<u><u>\$ 5,235,000</u></u>	<u><u>\$ 1,786,293</u></u>	<u><u>\$ 7,021,293</u></u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 7 – Long-Term Debt (continued)

Notes Payable

	<u>2020</u>	<u>2019</u>
<p>On October 21, 2015, the Authority obtained a Pennsylvania Infrastructure Investment Authority (Pennvest) loan for the Donaldson’s Crossroads Plant Expansion Project in an amount not to exceed \$11 million. This note is a direct borrowing and will mature in October 2038. This loan requires interest only payments for up to 36 months from date of contract at 1.055% and 240 principal and interest payments at 1.835%. Principal payments began effective September 1, 2018. This loan is collateralized by the revenues of the Authority.</p>	\$ 9,830,387	\$ 10,333,967
<p>On May 14, 2019, the Authority obtained a Pennsylvania Infrastructure Investment Authority (Pennvest) loan for the Conveyance System Improvements Projects in an amount not to exceed \$5,255,000. This note is a direct borrowing and will mature in October 2040. During the years ended December 31, 2020 and 2019, proceeds of \$2,135,083 and \$2,904,236 were drawn down on the loan, respectively. This loan required interest only payments for up to 36 months from date of contract at 1.00% and 240 principal and interest payments at 1.743%. The Authority is currently making interest only payments. This loan is collateralized by the revenues of the Authority.</p>	4,998,974	2,904,236
<p>On October 21, 2015, the Authority obtained a Pennsylvania Infrastructure Investment Authority (Pennvest) loan for the Donaldson’s Crossroads Plant Expansion Project in an amount not to exceed \$11 million. This note is a direct borrowing and will mature in October 2038. This loan requires interest only payments for up to 36 months from date of contract at 1.055% and 240 principal and interest payments at 1.835%. Principal payments began effective September 1, 2018. This loan is collateralized by the revenues of the Authority.</p>	1,095,146	1,158,952

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 7 – Long-Term Debt (continued)

Notes Payable (continued)

	<u>2020</u>	<u>2019</u>
On October 23, 2003, the Authority obtained a Pennsylvania Infrastructure Investment Authority (Pennvest) loan for the Ivy Lane Sewer Extension Project. The loan is a direct borrowing and requires monthly payments of \$2,199, currently at 2.774% interest, through March 2024, and is collateralized by the assets of the Authority.	<u>81,953</u>	<u>105,720</u>
	16,006,460	14,502,875
Less: current maturities included in current liabilities	<u>841,590</u>	<u>635,259</u>
<u>Notes Payable</u> – net	<u>\$ 15,164,870</u>	<u>\$ 13,867,616</u>

Debt service payments on the outstanding notes payable are as follows:

<u>For the Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 841,590	\$ 192,419	\$ 1,034,009
2022	852,578	181,431	1,034,009
2023	853,878	191,989	1,045,867
2024	827,681	222,097	1,049,778
2025	833,787	212,078	1,045,865
2026-2030	4,668,246	892,472	5,560,718
2031-2035	4,305,714	454,261	4,759,975
2036-2040	<u>2,822,986</u>	<u>82,553</u>	<u>2,905,539</u>
<u>Total</u>	<u>\$ 16,006,460</u>	<u>\$ 2,429,300</u>	<u>\$ 18,435,760</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 7 – Long-Term Debt (continued)

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 Payable</u>	\$ 5,435,000	\$ 0	\$ 200,000	\$ 5,235,000	\$ 205,000
<u>Notes Payable</u>					
Pennvest loan – Ivy Lane Sewer	105,720	0	23,767	81,953	24,435
Pennvest loan – Donaldson’s Crossroads Plant	10,333,967	0	503,580	9,830,387	509,052
Pennvest loan – Conveyance System Improvements Projects	2,904,236	2,135,083	40,345	4,998,974	241,228
Bank loan – Donaldson’s Crossroads Dewatering Facility	1,158,952	0	63,806	1,095,146	66,875
<u>Total Notes Payable</u>	<u>14,502,875</u>	<u>2,135,083</u>	<u>631,498</u>	<u>16,006,460</u>	<u>841,590</u>
<u>Total Bonds and Notes Payable</u>	<u>\$ 19,937,875</u>	<u>\$ 2,135,083</u>	<u>\$ 831,498</u>	<u>\$ 21,241,460</u>	<u>\$ 1,046,590</u>

Note 8 – Other Noncurrent Liabilities

Changes in Other Noncurrent Liabilities

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Compensated absences	\$ 10,875	\$ 580	\$ 0	\$ 11,455	\$ 0
Liability for developer's deposits	29,389	184,326	164,099	49,616	0
Unearned Revenue	88,422	0	0	88,422	0
<u>Total Other Noncurrent Liabilities</u>	<u>\$ 128,686</u>	<u>\$ 184,906</u>	<u>\$ 164,099</u>	<u>\$ 149,493</u>	<u>\$ 0</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 9 - 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.

Note 10 - 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, 2020, the Authority contracted with various insurance groups to provide coverages as follows:

Commercial Property	\$ 37,332,525
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 / occurrence \$ 150,000 aggregate
Workers Compensation	\$ 500,000 / accident \$ 500,000 aggregate
Employers Liability	\$ 500,000
Loss of Wages	\$ 100,000 / claim \$ 250,000 aggregate
Commercial Crime	\$ 25,000
Employee Benefits	\$ 1,000,000 / occurrence \$ 2,000,000 aggregate
Umbrella	\$ 1,000,000

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 10 - Risk Management (continued)

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 11 – Operating Revenues

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

	<u>2020</u>	<u>2019</u>
Residential sewer	\$ 3,521,043	\$ 2,882,974
Non-residential sewer	778,990	804,825
Other	<u>169,330</u>	<u>130,611</u>
<u>Total Operating Revenues</u>	<u>\$ 4,469,363</u>	<u>\$ 3,818,410</u>

Note 12 – 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, 2020 and 2019, of approximately \$202,400. The current lease runs from April 1, 2019 to March 31, 2020, with monthly rentals of \$985 discounted to \$935 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 monthly fee of \$74, and repairs are subtracted from the rent. Total net rent revenue for each of the years ended December 31, 2020 and 2019, was \$9,456 and \$10,375, respectively, and is included in other income in the accompanying financial statements.

Note 13 – LSA Grant

In July 2017, a grant was approved for \$300,000 to the Authority from the Pennsylvania Department of Community and Economic Development as part of Washington County’s Local Share Account Program. Proceeds were received during the year ended December 31, 2019, and used for construction costs relative to the Donaldson’s Crossroads Interceptor Project.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2020 and 2019

Note 14 – Subsequent Events

In March 2020, the World Health Organization declared the novel strain of the coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the date of this report, the Authority is unable to determine if the COVID-19 disruption will materially impact 2021 results of operations or financial position. The Authority cannot reasonably estimate the overall length or severity of this pandemic, which if prolonged for a long duration, could potentially have material impact to the Authority's financial position or results of operations.

In January 2020, the Authority was awarded an LSA Grant of \$250,000, the proceeds of which are to be used to defray a portion of the Brush Run Treatment Plant Upgrade Project. As of December 31, 2020, the project had begun, but no funds were drawn. The Authority applied to receive these funds in March 2021.

As of December 31, 2020, negotiations are ongoing for a new collective bargaining unit contract.

In April 2021, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2021, in the amount of \$9,190,000. The bonds were issued to obtain the funds necessary to: (1) fund capital projects, including the Brush Run WPCP Ultraviolet Disinfection and Phosphorus Removal Upgrades Project; (2) refund the 2016 Bonds; (3) pay off a bank loan; and (4) pay the costs and expenses of issuing the bonds.