

PETERS TOWNSHIP SANITARY AUTHORITY

**Audited Financial Statements and
Required Supplementary Information**

**For the Years Ended
December 31, 2021 and 2020**

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of **PETERS TOWNSHIP SANITARY AUTHORITY**, which comprise the statements of net position as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **PETERS TOWNSHIP SANITARY AUTHORITY** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **PETERS TOWNSHIP SANITARY AUTHORITY's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 **PETERS TOWNSHIP SANITARY AUTHORITY's** internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **PETERS TOWNSHIP SANITARY AUTHORITY's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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, Beleznyk, & Associates, P.C.

Eighty Four, Pennsylvania
July 13, 2022

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2021

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, 2021.

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, Donaldson's Crossroads Service Area, and Marella Manor Service Area 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), and the Donaldson's Crossroads Water Pollution Control Plant (DCWPCP) with a design flow of 1.75 MGD.

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, 2021

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 \$959,000 or 2.7% between 2020 and 2021.
- Operating revenues decreased approximately \$86,000 or 1.9% from 2020.
- Operating expenses increased approximately \$183,000 or 5.1% over the prior fiscal year.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2021

FINANCIAL ANALYSIS (continued)

Net Position

Total net position increased by approximately \$959,000 during the fiscal year ended December 31, 2021, as summarized below:

	<u>2021</u>	<u>2020</u>	<u>Increase / (Decrease)</u>
<u>ASSETS</u>			
Current assets	\$ 7,295,973	\$ 6,177,578	\$ 1,118,395
Property, Plant & Equipment – net	52,119,173	50,741,335	1,377,838
Other assets	<u>129,645</u>	<u>95,074</u>	<u>34,571</u>
<u>TOTAL ASSETS</u>	<u>\$ 59,544,791</u>	<u>\$ 57,013,987</u>	<u>\$ 2,530,804</u>
<u>LIABILITIES</u>			
Current liabilities	\$ 1,093,386	\$ 1,537,694	\$ (444,308)
Long-term liabilities	<u>22,360,565</u>	<u>20,392,249</u>	<u>1,968,316</u>
<u>Total Liabilities</u>	23,453,951	21,929,943	1,524,008
<u>DEFERRED INFLOWS OF RESOURCES</u>	47,886	0	47,886
<u>NET POSITION</u>			
Invested in capital assets – net of related debt	28,968,911	29,324,814	(355,903)
Unrestricted	<u>7,074,043</u>	<u>5,759,230</u>	<u>1,314,813</u>
<u>Total Net Position</u>	<u>36,042,954</u>	<u>35,084,044</u>	<u>958,910</u>
<u>TOTAL LIABILITIES AND NET POSITION</u>	<u>\$ 59,544,791</u>	<u>\$ 57,013,987</u>	<u>\$ 2,530,804</u>

A portion of net position, approximately \$28,970,000, 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, 2021. Unrestricted net position is available to fund future projects or future operations. The balance of unrestricted net position increased by approximately \$1,315,000 during the 2021 fiscal year. This increase was the result of the restructuring of debt, rate increases that went into effect January 1, 2020, and capital improvements that were constructed and placed into service.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2021

FINANCIAL ANALYSIS (continued)

Change in Net Position

Operating revenues consist primarily of residential and non-residential sewerage services. A summary of the Authority's operating revenues and expenses are as follows for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
<u>OPERATING REVENUES</u>			
Residential sewer	\$ 3,381,072	\$ 3,521,043	\$ (139,971)
Non-residential sewer	820,241	778,990	41,251
Other	<u>182,336</u>	<u>169,330</u>	<u>13,006</u>
<u>Total Operating Revenues</u>	4,383,649	4,469,363	(85,714)
 <u>OPERATING EXPENSES</u>	 <u>3,762,148</u>	 <u>3,578,730</u>	 <u>183,418</u>
 <u>Income from Operations</u>	 <u>\$ 621,501</u>	 <u>\$ 890,633</u>	 <u>\$ (269,132)</u>

The Authority experienced an overall decrease from the prior year in sewer service revenues. This decrease is attributable to a combination of a reduction in residential water consumption as individuals returned to usage of public buildings and facilities as pandemic restrictions lifted, along with a reduction in outdoor water requirements from a wetter summer, and an increase in non-residential water consumption as public buildings and facilities reopened.

Total operating expenses increased overall by approximately \$183,000 from the prior year. The largest increase was in maintenance and repair expense. This was attributed to the completion of the 2020/2021 sewer rehabilitation project. The project was postponed in 2020, resulting in a larger project in 2021. The other increases in operating expenses are minimal and vary year to year depending on necessities.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) include tap-in fees, interest income and expense, bond costs, and gain or loss on disposal of assets. These categories resulted in approximately \$(305,000) and \$(91,000) in net revenues (expenses), respectively, for the years ended December 31, 2021 and 2020.

Income before capital contributions decreased from approximately \$800,000 in 2020 to approximately \$317,000 in 2021, a negative swing of approximately \$483,000.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2021

FINANCIAL ANALYSIS (continued)

Nonoperating Revenues (Expenses) (continued)

Capital contributions consist primarily of developer contributions to systems and capital grants. Total capital contributions for the years ended December 31, 2021 and 2020, were approximately \$643,000 and \$863,000, respectively. In 2021, the Peters Township and the Peters School District contributed to the construction of a main interceptor line, and a local grant was received in the amount of \$250,000, towards the BR Treatment Plant construction.

BUDGETARY INFORMATION

The following table is a comparison of actual revenues for the year ended December 31, 2021 to the original budgeted amounts for the same period.

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<u>OPERATING REVENUES</u>			
Sewer service:			
Residential	\$ 3,381,072	\$ 3,520,630	\$ (139,558)
Non-residential	<u>820,241</u>	<u>744,152</u>	<u>76,089</u>
<u>Total Sewer Service Revenues</u>	4,201,313	4,264,782	(63,469)
Miscellaneous operating revenues	<u>182,336</u>	<u>106,797</u>	<u>75,539</u>
<u>Total Operating Revenues</u>	<u>\$ 4,383,649</u>	<u>\$ 4,371,579</u>	<u>\$ 12,070</u>

As indicated above, sewer service revenues were under budget by approximately \$63,000, due to postponement and slow construction of several housing developments in 2020, resulting in less 2021 customers and decreased water consumption; customers migrating back to office locations post-pandemic; and a slightly wetter summer, which resulted in less outside watering.

Miscellaneous operating revenues were over budget by approximately \$76,000. This was a result of greater demand for dye testing required for property sales and transfers, larger returns on investment interest earnings, penalties on delinquent customers, and the enrollment in the curtailment program for 2020/2021.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2021

BUDGETARY INFORMATION (continued)

The following table is a comparison of actual expenses for the year ended December 31, 2021, to the original budgeted amounts for the same time period:

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER (UNDER) BUDGET</u>
<u>OPERATING EXPENSES</u>			
Materials and supplies	\$ 43,188	\$ 49,200	\$ (6,012)
Chemicals	77,700	78,900	(1,200)
Lab supplies	42,341	47,850	(5,509)
Vehicles	31,725	31,600	125
Equipment/facilities	41,218	59,350	(18,132)
Maintenance and repair	221,469	337,799	(116,330)
Utilities	195,682	207,040	(11,358)
Biosolids	130,060	127,000	3,060
Salaries and wages	945,879	964,526	(18,647)
Employee benefits	294,385	329,844	(35,459)
Travel and meetings	9,525	13,520	(3,995)
Computers and networking	46,431	30,026	16,405
POTW fees	44,973	59,587	(14,614)
Professional services	92,779	81,821	10,958
Insurance	108,566	108,722	(156)
Administrative services	44,012	50,000	(5,988)
Equipment replacement allowance	<u>0</u>	<u>412,000</u>	<u>(412,000)</u>
<u>Total Operating Expenses</u>	<u><u>\$ 2,369,933</u></u>	<u><u>\$ 2,988,785</u></u>	<u><u>\$ (618,852)</u></u>

Depreciation expense 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 (under budget amount) is transferred to the capital improvements fund in order to fund the capital plan.

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2021

BUDGETARY INFORMATION (continued)

Total operating expenses were under budget by approximately \$619,000 as illustrated above. However, when the equipment replacement allowance is subtracted, the amount under budget is approximately \$207,000. The largest variance category was maintenance and repair expense. This was attributed to the conservative budgeting of the 2021 sewer rehabilitation project, and no major repairs needed to be completed. The next largest variances were employee benefits and wages. These were attributed to the different allocations of insurance status plans (family vs. single) for new employees, and not having new employees for the full year and at the full union rate.

The following table is a comparison of nonoperating revenues (expenses) for the year ended December 31, 2021, to the original budgeted amounts for the same time period:

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
<u>NONOPERATING</u>			
<u>REVENUES/(EXPENSES)</u>			
Tap-in fees	\$ 294,822	\$ 204,090	\$ 90,732
Interest income	39,556	4,000	35,556
Interest expense	(347,776)	(336,057)	(11,719)
Bond costs	(184,133)	0	(184,133)
Amortization	(1,086)	0	(1,086)
Loss on disposal of assets	(118,140)	0	(118,140)
Other income (expense)	11,633	9,350	2,283
<u>Total Nonoperating</u>			
<u>Revenues (Expenses)</u>	<u>\$ (305,124)</u>	<u>\$ (118,617)</u>	<u>\$ (186,507)</u>

Total nonoperating revenues/expenses were over budget by approximately \$187,000 as illustrated above. Tap-in fees were over budget due to several new housing developments proceeding earlier than planned. Interest income was over budget due to higher yields and greater cash balances to invest. Bond costs, amortization, and loss on disposal of assets were not budgeted. There was a bond refunding as well as a sewer line replacement project that resulted in the abandonment of various sewer lines. Loss on disposal of assets was due to the abandoned sewer lines being depreciated over a ninety-nine year period.

Results of Operations

Operating revenues were sufficient to meet all operating expenses, with income before capital contributions of \$316,377. 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

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2021

BUDGETARY INFORMATION (continued)

Results of Operations (continued)

normally approximate depreciation expense. The Authority's policy of restricting the use of nonoperating revenues to reinvestment 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.

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 2021, planned capital expenditures totaled \$2,846,374, with \$2,558,343 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, the delay of the design phase of the sewer project, and no emergency issues.

Major capital expenditures during 2021 included the following:

- Construction in Progress – The construction phase of Brush Run Treatment Optimization Upgrade Project
- Engineering associated with the Brush Run Treatment NPDES permit renewal
- 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, 2021

CAPITAL ASSETS

At December 31, 2021, the Authority had approximately \$52,120,000 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 \$1,380,000 over the prior year.

Major additions and disposals of capital assets consisted of the following transactions:

- Changes to machinery and equipment related to the pump replacements and the treatment plant, as well as the installation of a new fire alarm system
- Changes to the installation of a stock yard for storage
- Updating of computers and specialized software packages
- Purchase of a new vehicle
- Additions to the collector sewers were attributed to expenditures related to engineering and construction costs for several developer contributed extensions

LONG-TERM DEBT

The Authority has outstanding debt associated with the construction of capital improvements. During the current year, the Authority refinanced the Series 2016 bonds, as well as certain notes payable, with a new bond issue. Long-term debt at December 31, 2021, is summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year
Sewer Revenue Bonds	\$ 5,235,000	\$ 9,190,000	\$ (5,355,000)	\$ 9,070,000
Notes payable	16,006,460	0	(1,869,614)	14,136,846
<u>TOTAL</u>	<u>\$ 21,241,460</u>	<u>\$ 9,190,000</u>	<u>\$ (7,224,614)</u>	<u>\$ 23,206,846</u>

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, 2021

BUDGET FOR 2022

The estimated revenue requirements to meet 2022 operating expenses and debt service are approximately \$4.6 million.

The significant factors considered in developing the 2022 operating budget include:

- Overall operating expenses are projected to increase by typical inflationary rates. Also, an increase in treatment expenses as the new plant is online
- The completion of the annual sewer rehabilitation project
- Increase of the equipment replacement allowance for future reinvestment
- 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 bond refunding, the partial funding of the Brush Run Optimization project, and Ivy Lane sewer project

The 2022 capital plan priorities are budgeted at \$481,000, including minor improvements to the Brush Run facility, completion of the Brush Run upgrade project, continuation of the Brush Run permit renewal process, design of replacements of two sewer projects, and completion of the Piney Fork 537 plan.

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 2022 are as follows:

Residential and Non-Residential Establishments

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

PETERS TOWNSHIP SANITARY AUTHORITY

Management Discussion and Analysis

December 31, 2021

FUTURE USER RATE INCREASES

When evaluating the 2022 budget, based upon new customers in the system, a rate increase is not required.

Therefore, future rates are anticipated to be increased according to inflationary rates for normal operating expenses if needed.

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 2,566,503	\$ 4,029,980
Certificates of deposit	3,554,351	943,862
Accounts receivable	1,011,434	1,048,161
Tap-in and assessments receivable – current	963	2,115
Inventory	45,216	39,845
Prepaid expenses	117,506	113,615
<u>Total Current Assets</u>	7,295,973	6,177,578
 <u>PROPERTY, PLANT AND EQUIPMENT</u> – net	 52,119,173	 50,741,335
 <u>OTHER ASSETS</u>		
Funds held by trustee	16	6
Tap-in and assessments receivable – net	90,804	95,068
Prepaid insurance on bonds	38,825	0
<u>Total Other Assets</u>	129,645	95,074
 <u>TOTAL ASSETS</u>	 <u>\$ 59,544,791</u>	 <u>\$ 57,013,987</u>

See the accompanying *Notes to the Financial Statements*

PETERS TOWNSHIP SANITARY AUTHORITY

Statements of Net Position (continued)

December 31, 2021 and 2020

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2021</u>	<u>2020</u>
<u>CURRENT LIABILITIES</u>		
Notes payable – current portion	\$ 783,116	\$ 841,590
Bonds payable – current portion	110,000	205,000
Accounts payable	47,252	290,023
Construction payable	64,493	127,176
Accrued interest	78,925	64,305
Other liabilities	9,600	9,600
<u>Total Current Liabilities</u>	1,093,386	1,537,694
<u>LONG-TERM LIABILITIES</u>		
Notes payable – net	13,353,730	15,164,870
Bonds payable – net	8,838,935	5,077,886
Other noncurrent liabilities	167,900	149,493
<u>Total Long-Term Liabilities</u>	22,360,565	20,392,249
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred charge on refunding	47,886	0
<u>NET POSITION</u>		
Invested in capital assets – net of related debt	28,968,911	29,324,814
Unrestricted	7,074,043	5,759,230
<u>Total Net Position</u>	36,042,954	35,084,044
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</u>	<u>\$ 59,544,791</u>	<u>\$ 57,013,987</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>OPERATING REVENUES</u>	\$ 4,383,649	\$ 4,469,363
<u>OPERATING EXPENSES</u>		
Materials and supplies	43,188	38,553
Chemicals	77,700	52,450
Lab supplies	42,341	46,331
Vehicles	31,725	16,837
Equipment/facilities	41,218	57,977
Maintenance and repair	221,469	111,012
Utilities	195,682	199,898
Biosolids	130,060	113,054
Salaries and wages	945,879	928,748
Employee benefits	294,385	306,879
Travel and meetings	9,525	6,977
Computers and networking	46,431	29,770
POTW fees	44,973	48,145
Professional services	92,779	92,853
Insurance	108,566	102,699
Administrative services	44,012	45,069
Depreciation	1,392,215	1,381,478
<u>Total Operating Expenses</u>	<u>3,762,148</u>	<u>3,578,730</u>
<u>Income from Operations</u>	621,501	890,633
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Tap-in fees	294,822	270,185
Interest income	39,556	27,146
Interest expense	(347,776)	(309,065)
Bond costs	(184,133)	0
Amortization	(1,086)	0
Loss on disposal of assets	(118,140)	(88,987)
Other income	11,633	9,456
<u>Total Nonoperating Revenues (Expenses)</u>	<u>(305,124)</u>	<u>(91,265)</u>
<u>Income Before Capital Contributions</u>	316,377	799,368

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Capital Contributions</u>		
Developer contributions to systems	392,533	862,934
Capital grant	<u>250,000</u>	<u>0</u>
<u>Total Capital Contributions</u>	<u>642,533</u>	<u>862,934</u>
<u>Change in Net Position</u>	958,910	1,662,302
Net position – beginning of year	<u>35,084,044</u>	<u>33,421,742</u>
<u>NET POSITION – END OF YEAR</u>	<u>\$ 36,042,954</u>	<u>\$ 35,084,044</u>

See the accompanying *Notes to the Financial Statements*

PETERS TOWNSHIP SANITARY AUTHORITY
Statements of Cash Flows
for the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash received from customers	\$ 4,420,376	\$ 4,314,375
Cash paid to employees	(949,957)	(928,168)
Cash paid to suppliers	(1,653,602)	(1,535,757)
<u>Net Cash Flows Provided by (Used in) Operating Activities</u>	1,816,817	1,850,450
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Receipt of tap-in fees	300,238	272,233
Principal payments on and redemptions of bonds	(5,355,000)	(200,000)
Principal payments on notes	(1,869,614)	(631,498)
Payment of interest	(333,156)	(310,344)
Purchase of capital assets	(2,558,343)	(2,343,251)
Proceeds from notes	0	2,135,083
Proceeds from bonds - net of discount	9,068,935	0
Payment of bond costs	(224,044)	0
Grant proceeds	250,000	0
<u>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</u>	(720,984)	(1,077,777)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
(Increase)/Decrease in funds held by trustee	(10)	114
(Increase)/Decrease in certificates of deposit	(2,610,489)	(17,839)
Receipt of interest	39,556	27,146
Receipt of other income	11,633	9,456
<u>Net Cash Flows Provided by (Used in) Investing Activities</u>	(2,559,310)	18,877
<u>Net Change in Cash</u>	(1,463,477)	791,550
Cash and cash equivalents – beginning of year	4,029,980	3,238,430
<u>CASH AND CASH EQUIVALENTS – END OF YEAR</u>	<u>\$ 2,566,503</u>	<u>\$ 4,029,980</u>

See the accompanying *Notes to the Financial Statements*

PETERS TOWNSHIP SANITARY AUTHORITY
 Statements of Cash Flows (continued)
 for the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Operating income	\$ 621,501	\$ 890,633
Depreciation	1,392,215	1,381,478
(Increase) decrease in:		
Accounts receivable	36,727	(154,988)
Inventory	(5,371)	5,034
Prepaid expenses	(3,891)	(5,529)
Other current assets	0	69,753
Increase (decrease) in:		
Accounts payable	(242,771)	(357,090)
Other liabilities	0	352
Other noncurrent liabilities	18,407	20,807
	<u>18,407</u>	<u>20,807</u>
 <u>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</u>	 <u>\$ 1,816,817</u>	 <u>\$ 1,850,450</u>
 <u>SCHEDULE OF NONCASH TRANSACTIONS:</u>		
Developer contributions to systems	<u>\$ 392,533</u>	<u>\$ 862,934</u>

See the accompanying *Notes to the Financial Statements*

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

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 Adopted Accounting Pronouncements

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. Management has adopted this standard effective January 1, 2021, and applied prospectively, with no effect on net assets.

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.

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.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

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.

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.

Capital Grants

Capital grants received to be applied towards construction projects are recognized as revenue in the accompanying statements of revenues, expenses and changes in net position. Total capital grants amounted to \$250,000 and \$0, respectively, during the years ended December 31, 2021 and 2020.

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, 2021 or 2020.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020, the carrying amount of the Authority's cash deposits and investments, including trust accounts, was \$6,120,870 and \$4,973,848, 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, 2021 or 2020.

Inventory

Inventory is valued at the lower of 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

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 2 - Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the Authority constructs or acquires additional capital assets each period, they are capitalized and reported at historical costs. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life.

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

Depreciation expense for the years ended December 31, 2021 and 2020, amounted to \$1,392,215 and \$1,381,478, 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. Prior to the implementation of GASB 89, interest incurred during the construction phase of capital assets was included as part of the capitalized value of the assets constructed. Capitalized interest totaled \$32,154 at December 31, 2020. There was no capitalized interest for the year ending December 31, 2021.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

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. During the year ended December 31, 2021, the Sewer Revenue Bonds, Series of 2021 were issued which advance refunded the 2016 bonds and established new trust accounts as follows: Construction, Revenue, Debt Service, Debt Service Reserve, and Surplus.

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. The Debt Service Reserve Fund was funded from the bond proceeds with a prepaid insurance policy in the amount of \$653,212. This insurance policy will remain in effect over the life of the bonds. All transfers between funds were properly made according to the trust indenture and loan agreements.

Invested funds consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Federal Government Obligation Fund	<u>\$ 16</u>	<u>\$ 6</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.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 2 - Summary of Significant Accounting Policies (continued)

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 July 13, 2022, the date the financial statements were available to be issued.

Note 3 - Fair Value of Financial Instruments

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

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial statements.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 3 - Fair Value of Financial Instruments (continued)

The following tables present the Authority's investments carried at fair value on a recurring basis as of December 31, 2021 and 2020, in accordance with the ASC 820-10 valuation hierarchy defined above:

	<u>December 31, 2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held by trustee	\$ 16	\$ 0	\$ 0	\$ 16
Certificates of deposit	0	3,554,351	0	3,554,351
	<u>\$ 16</u>	<u>\$ 3,554,351</u>	<u>\$ 0</u>	<u>\$ 3,554,367</u>

	<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	0	943,862	0	943,862
	<u>\$ 6</u>	<u>\$ 943,862</u>	<u>\$ 0</u>	<u>\$ 943,868</u>

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, 2021 and 2020, from this plan amounted to \$339 and \$1,954, 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, 2021 and 2020, \$2,994 and \$6,795, respectively, was outstanding for these fees.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 4 – Tap-In and Assessments Receivable (continued)

In addition to the above, the Authority also has outstanding deferred agricultural assessments receivable in the amounts of \$88,434 for each of the years ended December 31, 2021 and 2020. 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>2021</u>	<u>2020</u>
Tap-in and assessments receivable – current	\$ 963	\$ 2,115
Tap-in and assessments receivable – net	<u>90,804</u>	<u>95,068</u>
	<u>\$ 91,767</u>	<u>\$ 97,183</u>

Note 5 - Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Reclassification</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 675,008	\$ 0	\$ 0	\$ 675,008
Construction in progress	<u>6,719,120</u>	<u>2,468,326</u>	<u>(5,799,106)</u>	<u>3,388,340</u>
Total Non-Depreciable Assets	7,394,128	2,468,326	(5,799,106)	4,063,348
Depreciable Assets:				
Administrative	1,336,831	936	0	1,337,767
Sewer system	28,541,385	350,949	5,627,064	34,519,398
Treatment	<u>31,333,729</u>	<u>67,982</u>	<u>0</u>	<u>31,401,711</u>
Total, at cost	68,606,073	2,888,193	(172,042)	71,322,224
Less accumulated depreciation:				
Administrative	407,257	35,985	0	443,242
Sewer system	9,569,934	421,201	(53,902)	9,937,233
Treatment	<u>7,887,547</u>	<u>935,029</u>	<u>0</u>	<u>8,822,576</u>
Total Accumulated Depreciation	<u>17,864,738</u>	<u>1,392,215</u>	<u>(53,902)</u>	<u>19,203,051</u>
NET CAPITAL ASSETS	<u>\$ 50,741,335</u>	<u>\$ 1,495,978</u>	<u>\$ (118,140)</u>	<u>\$ 52,119,173</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

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 (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 included 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, 2026, has provided for a maximum hourly contribution rate of \$4.32 for each active employee hired prior to February 1, 2021, and 6% of the employee's regular hourly wages for each active employee hired after February 1, 2021. Pension expense for the multiemployer pension plan was \$64,856 and \$82,902 for the years ended December 31, 2021 and 2020, respectively.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

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 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, 2021 and 2020, there were four plan members. The Authority's total contributions for 2021 and 2020 were \$19,485 and \$19,103, 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.

Note 7 – Long-Term Debt

Sewer Revenue Bonds, Series of 2016

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 was 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 were payable in annual installments with principal payments ranging from \$5,000 to \$340,000 at interest rates ranging from 2% to 3.35%. These bonds were refunded with the issuance of the Sewer Revenue Bonds, Series of 2021.

Sewer Revenue Bonds, Series of 2021

On April 6, 2021, the Authority issued the Sewer Revenue Bonds, Series of 2021 in the amount of \$9,190,000. These bonds were issued at a discount of \$121,065 which is being amortized over the life of the bonds. Proceeds from the sale of the 2021 bonds were used to: 1) refund and restructure the outstanding principal of and accrued interest on the Authority's Guaranteed Sewer Revenue Bonds, Series of 2016; 2) refund and restructure the outstanding principal of and accrued interest on the Subordinate Sewer Revenue Note, Series of 2018; 3) fund various capital projects; 4) purchase a surety policy for deposit to the Debt Service Reserve Fund; and 5) fund the payment of the costs of issuing and insuring the 2021 Bonds. The bonds are secured under the Trust Indenture, by a pledge of the sewer revenues and receipts derived by the Authority from the operation of the sewer system. The bonds are payable in annual installments with principal payments ranging from \$90,000 to \$1,080,000 at interest rates ranging from 2% to 2.35%.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 7 – Long-Term Debt (continued)

Bonds payable at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Bonds Payable, Series 2016	\$ 0	\$ 5,235,000
Bonds Payable, Series 2021	9,070,000	0
Less current portion	<u>110,000</u>	<u>205,000</u>
	8,960,000	5,030,000
Bond premium/(discount) – net	<u>(121,065)</u>	<u>47,886</u>
<u>Bonds Payable</u> – net	<u>\$ 8,838,935</u>	<u>\$ 5,077,886</u>

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

Interest Rate	Year Ending December 31,	Principal	Interest	Total
2.00%	2022	\$ 110,000	\$ 199,895	\$ 309,895
2.00%	2023	90,000	197,695	287,695
2.00%	2024	100,000	195,895	295,895
2.00%	2025	105,000	193,895	298,895
2.00%	2026	95,000	191,795	286,795
2.00%	2027-2031	490,000	930,175	1,420,175
2.00%	2032-2036	540,000	879,375	1,419,375
2.00-2.25%	2037-2041	3,360,000	756,763	4,116,763
2.25-2.35%	2042-2045	<u>4,180,000</u>	<u>247,267</u>	<u>4,427,267</u>
		<u>\$ 9,070,000</u>	<u>\$ 3,792,755</u>	<u>\$ 12,862,755</u>

Rate Covenants

The Authority is subject to certain minimum rate covenants under the terms of the 2021 Series Bonds Trust Indenture.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 7 – Long-Term Debt (continued)

Notes Payable

	<u>2021</u>	<u>2020</u>
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.	\$ 9,321,495	\$ 9,830,387
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, 2021 and 2020, proceeds of \$0 and \$2,135,083 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%. This loan is collateralized by the revenues of the Authority.	4,757,834	4,998,974
In October 2018, the Authority obtained a bank loan for the Donaldson's Crossroads dewatering facility. The loan was a direct borrowing and required monthly payments of \$8,941, at 3.75% interest through November 2028, at which time, a balloon payment of approximately \$500,000 was due. The loan was collateralized by the assets of the Authority. The loan was paid off during the year ended December 31, 2021 with proceeds from the issuance of the Sewer Revenue Bonds, Series of 2021.	0	1,095,146

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 7 – Long-Term Debt (continued)

Notes Payable (continued)

	<u>2021</u>	<u>2020</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>57,517</u>	<u>81,953</u>
	14,136,846	16,006,460
Less: current maturities included in current liabilities	<u>783,116</u>	<u>841,590</u>
<u>Notes Payable</u> – net	<u>\$ 13,353,730</u>	<u>\$ 15,164,870</u>

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

For the Year Ending December 31,	Principal	Interest	Total
2022	\$ 783,116	\$ 143,597	\$ 926,713
2023	781,728	156,843	938,571
2024	752,833	189,649	942,482
2025	755,950	182,619	938,569
2026	758,719	193,275	951,994
2027-2031	4,005,903	754,071	4,759,974
2032-2036	4,384,111	375,863	4,759,974
2037-2040	<u>1,914,486</u>	<u>39,306</u>	<u>1,953,792</u>
<u>Total</u>	<u>\$ 14,136,846</u>	<u>\$ 2,035,223</u>	<u>\$ 16,172,069</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 7 – Long-Term Debt (continued)

Changes in Bonds Payable and Notes Payable

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
<u>Bonds Payable</u>					
Sewer Revenue Bonds, Series of 2016	\$ 5,235,000	\$ 0	\$ 5,235,000	\$ 0	\$ 0
Sewer Revenue Bonds, Series of 2021	<u>0</u>	<u>9,190,000</u>	<u>120,000</u>	<u>9,070,000</u>	<u>110,000</u>
<u>Total Bonds Payable</u>	5,235,000	9,190,000	5,355,000	9,070,000	110,000
<u>Notes Payable</u>					
Pennvest loan – Ivy Lane Sewer	81,953	0	24,436	57,517	25,121
Pennvest loan – Donaldson’s Crossroads Plant	9,830,387	0	508,892	9,321,495	514,449
Pennvest loan – Conveyance System Improvements Projects	4,998,974	0	241,140	4,757,834	243,546
Bank loan – Donaldson’s Crossroads Dewatering Facility	<u>1,095,146</u>	<u>0</u>	<u>1,095,146</u>	<u>0</u>	<u>0</u>
<u>Total Notes Payable</u>	<u>16,006,460</u>	<u>0</u>	<u>1,869,614</u>	<u>14,136,846</u>	<u>783,116</u>
<u>Total Bonds and Notes Payable</u>	<u>\$ 21,241,460</u>	<u>\$ 9,190,000</u>	<u>\$ 7,224,614</u>	<u>\$ 23,206,846</u>	<u>\$ 893,116</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

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	\$ 11,455	\$ 0	\$ 4,078	\$ 7,377	\$ 0
Liability for developer's deposits	49,616	101,138	78,653	72,101	0
Unearned Revenue	<u>88,422</u>	<u>0</u>	<u>0</u>	<u>88,422</u>	<u>0</u>
<u>Total Other Noncurrent Liabilities</u>	<u>\$ 149,493</u>	<u>\$ 101,138</u>	<u>\$ 82,731</u>	<u>\$ 167,900</u>	<u>\$ 0</u>

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 9 – Deferred Amount on Refunding

During the year ended December 31, 2021, the Authority issued the Sewer Revenue Bonds Series of 2021, which refunded the Series 2016 bonds. See Note 7. This resulted in a cumulative deferred charge on refunding in the amount of \$47,886. This amount is being amortized over the remaining life of the new bond issue.

The unamortized balance is \$47,886 at December 31, 2021, and is reported as deferred inflows of resources in the accompanying statements of net position. There was no amortization on the deferred amount of refunding in the year ended December 31, 2021.

Note 10 - 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.

Litigation Matters

The Authority consulted an engineering firm to oversee the installation of sewer facilities for a residential development, and the developer is contesting overages of these engineering services. The parties have yet to agree on the appointment of an impartial third-party engineer to act in place of an arbitrator. Should formal litigation commence, the Authority will strongly defend its position that the inspection fees are reasonable and necessary. The likelihood to prevail, or of an unfavorable outcome, cannot be definitively determined at this time.

Note 11 - 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. The Authority has property, general liability, automobile, inland marine, umbrella, public officials liability, commercial crime, cyber liability, earthquake and flood, workers' compensation, and employee health insurance coverage. Claims have not exceeded coverage, and the Authority has had no significant reduction in insurance coverage.

PETERS TOWNSHIP SANITARY AUTHORITY

Notes to the Financial Statements

December 31, 2021 and 2020

Note 12 – Operating Revenues

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

	<u>2021</u>	<u>2020</u>
Residential sewer	\$ 3,381,072	\$ 3,521,043
Non-residential sewer	820,241	778,990
Other	<u>182,336</u>	<u>169,330</u>
<u>Total Operating Revenues</u>	<u>\$ 4,383,649</u>	<u>\$ 4,469,363</u>

Note 13 – LSA Grant

The Authority received a \$250,000 grant from the Pennsylvania Department of Community and Economic Development as part of Washington County's Local Share Account Program in the year ended December 31, 2021. Proceeds were used for construction costs relative to the Brush Run WPCP UV Disinfection and Phosphorus Removal Upgrades project.

Note 14 – Subsequent Events

Subsequent to the year ended December 31, 2021, the Authority received a \$500,000 LSA grant for the 2022 Sewer Infrastructure Rehabilitation Project.