

**MUNHALL SANITARY SEWER
MUNICIPAL AUTHORITY**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017
&
INDEPENDENT AUDITORS' REPORT**



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McCall Scanlon & Tice, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Munhall Sanitary Sewer Municipal Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of Munhall Sanitary Sewer Municipal Authority (the "Authority"), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

McCall Scaron & Tice, LLC

Pittsburgh, Pennsylvania
May 20, 2019

MUNHALL SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

	<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:			
Cash		\$ 2,125,527	\$ 1,847,505
Accounts receivable, net		618,549	609,415
Capital grant receivable		142,104	129,504
Prepaid expenses		3,391	9,674
Total current assets		<u>2,889,571</u>	<u>2,596,098</u>
NONCURRENT ASSETS,			
Capital assets-at cost-net of accumulated depreciation		14,500,692	14,767,404
TOTAL		<u>\$17,390,263</u>	<u>\$17,363,502</u>
<u>LIABILITIES AND NET POSITION</u>			
CURRENT LIABILITIES:			
Accounts payable-operating		\$ 606,195	\$ 612,673
Accounts payable-capital		13,896	27,994
Accrued liabilities		13,996	13,511
Current portion of long-term debt		552,088	560,828
Total current liabilities		<u>1,186,175</u>	<u>1,215,006</u>
LONG-TERM DEBT		<u>7,314,695</u>	<u>7,866,783</u>
Total liabilities		<u>8,500,870</u>	<u>9,081,789</u>
NET POSITION:			
Net investment in capital assets		6,762,117	6,441,303
Unrestricted		2,127,276	1,840,410
Total net position		<u>8,889,393</u>	<u>8,281,713</u>
TOTAL		<u>\$17,390,263</u>	<u>\$17,363,502</u>

See Notes To Financial Statements

MUNHALL SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Sewage charges	\$ 3,703,821	\$ 3,591,075
Other	4,246	4,250
Total operating revenues	3,708,067	3,595,325
OPERATING EXPENSES:		
Service fees	1,969,434	1,834,094
Payroll	32,515	10,253
Payroll taxes	3,697	1,601
Professional fees	209,668	150,126
Collection fees	175,440	141,375
Advertising	768	214
Insurance	10,650	13,815
Office expenses	2,170	8,428
Postage	24,992	30,916
Seminars, dues, training	8,576	3,093
Telephone	1,009	746
Collection costs	19,831	13,779
Outside contractors	117,325	264,724
Other	1,503	1,409
Maintenance	28,543	23,321
Bad debts	663	17,028
Depreciation expense	323,059	220,712
Total operating expenses	2,929,843	2,735,634
NET OPERATING INCOME (LOSS)	778,224	859,691
NONOPERATING REVENUES (EXPENSES):		
Interest income	4,093	-
Interest expense	(187,237)	(106,205)
Total nonoperating revenues (expenses)	(183,144)	(106,205)
INCOME (LOSS) BEFORE CAPITAL GRANT FUNDING	595,080	753,486
CAPITAL GRANT FUNDING	12,600	129,504
CHANGE IN NET POSITION	607,680	882,990
NET POSITION, BEGINNING OF YEAR	8,281,713	7,398,723
NET POSITION, END OF YEAR	\$ 8,889,393	\$ 8,281,713

See Notes To Financial Statements

MUNHALL SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 3,698,270	\$ 3,576,472
Payments to or on behalf of employees	(47,882)	(10,693)
Cash paid to suppliers and others	(2,557,949)	(2,378,351)
Net cash provided by operating activities	1,092,439	1,187,428
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Investment in capital assets	(70,445)	(208,874)
Proceeds from the issuance of debt	-	550,811
Principal payments on long-term debt	(560,828)	(443,841)
Interest paid on debt	(187,237)	(181,323)
Net cash used in capital and related financing activities	(818,510)	(283,227)
CASH FLOWS FROM INVESTING ACTIVITIES,		
Interest received	4,093	-
Net cash provided by investing activities	4,093	-
NET INCREASE IN CASH	278,022	904,201
CASH, BEGINNING OF YEAR	1,847,505	943,304
CASH, END OF YEAR	\$ 2,125,527	\$ 1,847,505
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income (loss)	\$ 778,224	\$ 859,691
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	323,059	220,712
Changes in assets and liabilities:		
Accounts receivable, net	(9,134)	(1,825)
Prepaid expenses	6,283	(520)
Accounts payable - operating	(6,478)	96,054
Accrued liabilities	485	13,316
Net cash provided by operating activities	\$ 1,092,439	\$ 1,187,428

See Notes To Financial Statements

MUNHALL SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Munhall Sanitary Sewer Municipal Authority (the "Authority") was incorporated on September 20, 2006 under the Pennsylvania Municipal Authorities Act of 1945. The Authority is composed of five members who were appointed by the Council of the Borough of Munhall, whose term of office shall be five years. The Authority is responsible for maintaining and operating sewers, sewer systems or parts thereof, sewage treatment works, including works of treating and disposing of industrial waste for the Borough of Munhall and for such other territory as the Authority may be authorized by law to serve.

Effective November 3, 2008, the Authority shall have the exclusive right and duty to provide collection, transportation, and disposal of sanitary sewage and industrial wastes (but not storm or surface drainage, except in existing combined sewers) in the Borough of Munhall, to the fullest extent permitted by law with Borough limits and only limited elsewhere by the provisions of the Borough's existing agreements all of which are expressly accepted and assumed by the Authority.

Existing sewers in the Borough of Munhall used for the combined transportation of sanitary wastes and surface drainage shall be operated and maintained by the Authority as part of the collection system. Storm water collection systems and above ground catch basins shall remain the property of the Borough of Munhall. If it becomes obligatory due to action by regulatory authorities to replace combined sewers with separate sanitary and storm sewers, the parties shall negotiate a division of the cost of such work.

If at any time in the future, the Authority ceases to operate the system, then all assets shall revert to the Borough.

The vast majority of the Authority's customers are residential; however, the Authority also services commercial and light industrial businesses. The Authority is not subject to federal or state income taxes.

The Authority is the primary government. There were no component units required to be included in the Authority's financial statements. Also, the Authority is not considered a component unit of any other entity.

BASIS OF ACCOUNTING AND CLASSIFICATION OF NET POSITION

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard setting body for the establishment of governmental accounting and financial reporting principles. The Authority's significant accounting policies are as follows:

BASIS OF ACCOUNTING

The Authority's accounts are reported as an Enterprise Fund on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating revenues and expenses consist of those revenues and expenses that result from ongoing principal operations of the Authority. Operating revenues consist primarily of charges to customers for sales and services. Non-operating revenues and expenses consist of those revenues and expenses that are related to grants and other financing and investing types of activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Authority's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

CLASSIFICATION OF NET POSITION

Accounting standards require the classification of net position into three components, net investments in capital assets, restricted, and unrestricted. The classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of assets that do not meet the definition of "restricted" or "net investment in capital assets."

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ACCOUNTS RECEIVABLE

Accounts receivable is reported at net realizable value. An allowance for doubtful accounts is recorded to report the receivables for services at their estimated net realizable value. Estimates for doubtful accounts are reported in the period during which the services are provided even though the actual amounts may become known at a later date. The Authority has the right under Pennsylvania statutes to place liens on property for collection purposes. The allowance for doubtful accounts as of December 31, 2018 and 2017 was \$240,253 and \$239,590, respectively.

CAPITAL ASSETS

Capital assets consist of property, plant, and equipment and are defined as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during 2018. Capitalized interest was \$75,118 for 2017. Gains or losses on the retirement or disposal of land, buildings, and equipment are reflected in the statements of revenues, expenses and changes in net position in the year of retirement or disposal. Repairs and maintenance costs are expensed when incurred. Depreciation is computed using a straight-line basis over the estimated useful lives of the assets.

SUBSEQUENT EVENTS

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through May 20, 2019, the date the financial statements were available to be issued. No events were required to be recognized or disclosed in these financial statements.

PENDING PRONOUNCEMENTS

GASB has issued the following statements which will become effective in future years as shown below. Management has not yet determined the impact of these statements on the Authority's financial statements.

GASB Statement No. 83, "*Certain Asset Retirement Obligations*" is effective for reporting periods beginning after June 15, 2018. This statement addresses certain Asset Retirement Obligations and establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to such obligations.

GASB Statement No. 84, "*Fiduciary Activities*" is effective for reporting periods beginning after December 15, 2018. The purpose of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 87, "*Leases*" is effective for reporting periods beginning after December 15, 2019. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases.

GASB Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*" is effective for reporting periods beginning after June 15, 2018. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, as well as clarify which liabilities governments should include when disclosing information related to debt.

GASB Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*" is effective for reporting periods beginning after December 15, 2019. The objectives of this statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period.

GASB Statement No. 90, "*Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*" is effective for reporting periods beginning after December 15, 2018. The objective of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

2. CASH AND DEPOSITS

The investment and deposit policy of Authority funds is governed by the by-laws of the Authority and Act 72 of the Pennsylvania State Legislature. In accordance with these regulations, the Authority has established investment procedures that require that monies be deposited with FDIC-insured banks in demand deposit accounts or certificates of deposit (which are required to be 100% collateralized by separately identified United States obligations, if not covered by FDIC insurance).

The Authority's unrestricted cash is available for general operating purposes and for acquisition of assets under capital projects, and interest and principal payments on capital project debt.

GASB Statement No. 40, "Deposit and Investment Risk Disclosures," requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The following is a description of the Authority's deposit and investment risks:

CUSTODIAL CREDIT RISK – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority maintains its cash at two financial institutions. As of December 31, 2018 and 2017, \$1,852,036 of the Authority's bank balance of \$2,127,346 and \$1,353,960 of the Authority's bank balance of \$1,847,805, respectively was exposed to custodial credit risk, which is collateralized by securities issued by United States federal agencies that are held by the Authority's FDIC insured depository institutions. These deposits have carrying amounts of \$2,125,527 as of December 31, 2018 and \$1,847,505 as of December 31, 2017.

INTEREST RATE RISK – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of the Authority's investments. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CREDIT RISK – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Pennsylvania Municipality Authorities Act of 1945 provides for investment of governmental funds into certain authorized investment types, including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. Statutes do not prescribe regulations related to demand deposits; however, they do allow pooling of governmental funds for investment. The Authority has no investment policy that would further limit its investment choices. The deposit and investment policy of the Authority adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the statutes or the policy of the Authority.

CONCENTRATION OF CREDIT RISK – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investments in a single issuer. The Authority places no limit on the amount the Authority may invest in any one issuer. As a matter of policy, the Authority maintains cash balances only with financial institutions having a high credit quality.

3. CAPITAL ASSETS

Capital asset activity is as follows for the year ended December 31:

	2018			
	BEGINNING BALANCE	ADDITIONS	DISPOSALS / RECLASSES	ENDING BALANCE
<u>Non-depreciable assets,</u>				
Construction in progress	\$ -	\$ 56,347	\$ -	\$ 56,347
Total non-depreciable assets	-	56,347	-	56,347
<u>Depreciable assets:</u>				
Sanitary Sewer System	5,290,685	-	-	5,290,685
Sanitary Sewer System - Phase I	5,271,247	-	-	5,271,247
Sanitary Sewer System - Phase 2	5,544,610	-	-	5,544,610
Machinery and equipment	9,282	-	-	9,282
Total depreciable assets	16,115,824	-	-	16,115,824
Less accumulated depreciation	(1,348,420)	(323,059)	-	(1,671,479)
Depreciable assets, net	14,767,404	(323,059)	-	14,444,345
Total capital assets	<u>\$ 14,767,404</u>	<u>\$ (266,712)</u>	<u>\$ -</u>	<u>\$ 14,500,692</u>

MUNHALL SANITARY SEWER MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS

	2017			
	BEGINNING BALANCE	ADDITIONS	DISPOSALS / RECLASSES	ENDING BALANCE
<u>Non-depreciable assets:</u>				
Construction in progress	\$ 5,409,422	\$ 135,188	\$ (5,544,610)	\$ -
Total non-depreciable assets	5,409,422	135,188	(5,544,610)	-
<u>Depreciable assets:</u>				
Sanitary Sewer System	5,290,685	-	-	5,290,685
Sanitary Sewer System - Phase I	5,271,247	-	-	5,271,247
Sanitary Sewer System - Phase 2	-	-	5,544,610	5,544,610
Machinery and equipment	-	9,282	-	9,282
Total depreciable assets	10,561,932	9,282	5,544,610	16,115,824
Less accumulated depreciation	(1,127,708)	(220,712)	-	(1,348,420)
Depreciable assets, net	9,434,224	(211,430)	5,544,610	14,767,404
Total capital assets	<u>\$ 14,843,646</u>	<u>\$ (76,242)</u>	<u>\$ -</u>	<u>\$ 14,767,404</u>

4. LONG-TERM DEBT

Long-term debt consists of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Note payable to Pennsylvania Infrastructure Investment Authority with interest at 2.28% for the first five years; 3.051% for the remaining term. The total amount of the loan is \$5,719,250 to be used to finance the construction costs to repair the existing sewer system. The note is secured by the Authority's sewer revenues, including all receipts and revenues generated from all sanitary sewer collection, transportation, treatment and disposal system facilities now or hereafter owned, operated, or maintained by the Authority.	\$ 3,055,709	\$ 3,334,068

MUNHALL SANITARY SEWER MUNICIPAL AUTHORITY
 NOTES TO FINANCIAL STATEMENTS

Note payable to Pennsylvania Infrastructure Investment Authority with interest at 1.666% for the first five years; 2.14% for the remaining term. The total amount of the loan is \$5,835,000 to be used to finance the construction costs to rehabilitate the existing sewers. The note is secured by the Authority's sewer revenues, including all receipts and revenues generated from all sanitary sewage collection, transportation, treatment and disposal system facilities now or hereafter owned, operated, or maintained by the Authority.

	<u>4,811,074</u>	<u>5,093,543</u>
Total	7,866,783	8,427,611
Less current portion	<u>552,088</u>	<u>560,828</u>
Long-term debt	<u>\$ 7,314,695</u>	<u>\$ 7,866,783</u>

Scheduled principal repayments on long-term debt are as follows:

	Principal	Interest	Total
2019	\$ 552,088	\$ 167,373	\$ 719,461
2020	565,417	154,043	719,460
2021	579,097	140,364	719,461
2022	588,353	140,013	728,366
2023	602,223	129,111	731,334
2024 - 2028	3,012,311	398,140	3,410,451
2029 - 2033	1,650,369	125,250	1,775,619
2034	<u>316,925</u>	<u>3,355</u>	<u>320,280</u>
Total	<u>\$7,866,783</u>	<u>\$ 1,257,649</u>	<u>\$ 9,124,432</u>

The changes in long-term debt for the years ended December 31 are as follows:

2018			
Balance Beginning of Year	Principal Loan Proceeds	Repayments & Retirements	Balance End of Year
<u>\$8,427,611</u>	<u>\$ -</u>	<u>\$ 560,828</u>	<u>\$7,866,783</u>

2017			
Balance Beginning of Year	Principal Loan Proceeds	Repayments & Retirements	Balance End of Year
<u>\$8,320,641</u>	<u>\$ 550,811</u>	<u>\$ 443,841</u>	<u>\$8,427,611</u>

5. LEGAL TAX SERVICE, INC.

The Authority entered into an agreement with Legal Tax Service, Inc. on December 31, 2004 for the billing and collection of the sanitary sewer user fee, and the collection of delinquent sanitary sewer user fee accounts. The fee is 2.85% of the total amount of the sanitary sewer user fees collected.

6. RISK MANAGEMENT

The Authority is subject to a variety of risks including, but not limited to, torts and civil rights claims; theft, damage, and destruction of its real and personal assets; workers compensation losses; errors and omissions of Authority employees and officials; and natural disasters.

In order to protect itself from potential losses, the Authority has purchased certain commercial insurance coverage which includes provisions for loss of personal property and losses relating to liability for property, products, and personal and advertising injury.

There has been no significant reduction in insurance coverage from the previous year and there have been no instances of settlements exceeding insurance coverage during the past three years.

7. CONTINGENCIES

In the normal course of business, the Authority is subject to certain contingent liabilities and unasserted claims. The contingencies are evaluated in light of their probability of being asserted and the ability to estimate the claims. It is the opinion of the Authority management that the ultimate resolution of other litigation, if any, will not have a material effect on the financial position of the Authority.

The Authority is currently under a Consent Order and Agreement (“COA”) with the Pennsylvania Department of Environmental Protection (“PADEP”) and Allegheny County Health Department (“ACHD”). The intent of the COA is to reduce Combined Sewer Overflow (“CSO”) frequency and volume, and reduce hydraulic overload at the ALCOSAN CSO structures and Wastewater Treatment Plant (“WWTP”). Since this project consists of the repair of sanitary sewer lines it complies with the COA, and the installation of new manholes will bring the Authority’s sewer system into compliance with PADEP’s design guidelines for sanitary sewers.
