

**Application of Pennsylvania-American Water Company for Acquisition of Assets of  
The Municipal Authority of the City of McKeesport  
66 Pa. C.S. §1329  
Application Filing Checklist – Water/Wastewater  
Docket No. A-2017-\_\_\_\_\_**

19. Cost of Service.
- a. Provide a copy of the seller's audited financial statement for the previous two years.

**RESPONSE:**

- a. See enclosed audited financial statement for the previous two years for The Municipal Authority for the City of McKeesport.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF MCKEESPORT**

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FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF MCKEESPORT  
MCKEESPORT, PENNSYLVANIA**

FINANCIAL STATEMENTS  
WITH REPORT BY  
CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEARS ENDED  
DECEMBER 31, 2014 AND 2013**

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**MCKEESPORT, PENNSYLVANIA**

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# **Mark C. Turnley**

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**To the Board of Directors  
Municipal Authority of the City of McKeesport**

## Independent Auditor's Report

### **Report on Financial Statements**

I have audited the accompanying financial statements of the Municipal Authority of the City of McKeesport as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Municipal Authority of the City of McKeesport's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Authority of the City of McKeesport as of December 31, 2014 and 2013, and the changes in its financial position 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***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iii-xv be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

### ***Other Information***

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Municipal Authority of the City of McKeesport's basic financial statements. The supplementary information (statement of detail operating expenses) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information (statement of detail operating expenses) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information (statement of detail operating expenses) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Mark C. Turnley, CPA

July 30, 2015  
New Brighton, Pennsylvania

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013

This section of the Authority's annual financial report represents our discussion and analysis of the Authority's financial performance during the years ended December 31, 2014 and 2013. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. We encourage readers to consider the information presented here in conjunction with the information provided in the Authority's financial statements.

**OPERATING AGREEMENTS**

The Authority owns and operates three wastewater treatment facilities pursuant to Agreements with each of the twelve communities it serves. The Authority has Agreements to provide wastewater treatment services with the City of McKeesport, the City of Duquesne, the Borough of Liberty, the Borough of Port Vue, the Borough of East McKeesport, the Township of Elizabeth, the Borough of Glassport, the Borough of White Oak, the Borough of Versailles, the Borough of Lincoln, the Borough of Dravosburg, and the Township of North Versailles. The Authority's Board of Directors establishes rates which are designed to recover the cost of providing services. The rates are based upon the gallons of water used by the communities. The Authority bills the municipalities on a quarterly basis for services provided to the communities' residents at the established rate. The municipalities are responsible for setting a rate for customers within their municipalities and for billing and collecting from those customers. The Authority began conducting billing services for Versailles Borough in March of 2009 in addition to the systems that it owns; McKeesport, Duquesne & Dravosburg.

The City of McKeesport sold its Collection System to the Authority effective January 1, 2009 under a lease purchase agreement. The acquisition of the sewer system included more than 550,000 feet of sewer lines ranging in size from 6" to 42" and two pumping stations. Since that date Authority personnel have performed routine maintenance and repairs to the system. On November 8, 2010 the City of Duquesne sold its wastewater treatment plant and collection system to the Authority for \$3.8 million. The acquisition added an additional 163,700 feet of sewer lines and 557 manholes to the Authority's care. A combined sewer overflow (CSO) long term control plan has been developed and is waiting on DEP approval. In January of 2011 the Authority purchased the Dravosburg Wastewater Treatment Facility along with it corresponding collection system from the Borough of Dravosburg for \$330,000. The acquisition added an additional 47,500 feet of sewer lines and one pump station. The CSO Long Term Control Plan has been joined with the Duquesne Plan for a joint plan for both systems.

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include only those of the Authority which is a component unit of the City of McKeesport, Pennsylvania. The financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. They are designed to provide a broad overview of the Authority's finances, in a manner similar to a private-sector business. All of the Authority's activities are reported in the statements except for activities associated with the pension fund because those funds are not available to support the Authority's own programs.

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference of the two reported as Net Position. Net Position is reported as one of three categories: net investment in capital assets; restricted; or unrestricted.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's Net Position changed during the year. All of the changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected rates and earned but unused vacation leave).

These two financial statements report the Authority's Net Position and the changes in the Net Position. Net Position, which represents the difference between assets and liabilities, are one measure of the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's Net Position may serve as a useful indicator of whether its financial position is improving or deteriorating.

Notes to the financial statements provide additional information that is essential to a full understanding of the information proved in these financial statements. The financial statements and accompanying notes can be found in the financial section of this report.



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**FINANCIAL HIGHLIGHTS**

In 2013 the Authority raised their sewage processing rate to \$7.85/1000 gallons consumed, this occurred on July 1<sup>st</sup> 2013. This rate increase was intended for the financing of the Sewage Treatment Plant Expansion, two new pump stations, the revamping of three other pump stations, and the construction of new force mains along with interceptor lines. This rate increase occurred soon after the bond and loan payments commenced. In 2014 the Authority had a minimal raise of ten cents to their sewage processing rate to \$7.95/1000 gallons to cover increased operating costs, inflation, etc.

Bids for the Act 537 Plan Expansion Project were opened on March 7, 2011 and fifteen (15) contracts were awarded on May 26, 2011.

The Authority was awarded PennVest funding on April 20, 2011. The funding consisted of \$17,239,375 in the form of a grant and an equal amount in the form of a one (1.0) percent thirty (30) year loan. These funds are to apply only to the two contracts pertaining to the construction relating to the upgrade of the wastewater treatment facility itself. It cannot be used for the upgrades to the pump stations or lines. The cost of these other contracts not covered by Pennvest funds will be funded by the bond revenues.

The Tapping Fee (Capacity fee) remained unchanged in 2014 at a rate of \$1,750 per Equivalent Dwelling Unit ("EDU"). An EDU, equivalent dwelling unit, is the average amount of wastewater that each household in the service area discharges each day. The Authority calculates an EDU to be 236 gallons per day. During 2013, there were two (2) new commercial taps purchased within the Authority's service area, and during 2014 there were forty-six (46) new commercial taps purchased within the Authority's service area. The balance of cash accumulated from tapping fees (The Tapping Fee Account), reserved by the Board for capital projects, at December 31, 2013 was \$349,862 and at December 31, 2014 was \$430,758.

On December 31, 2014, total assets and deferred outflow of resources were \$108,069,635 and total liabilities were \$92,626,701 yielding a net position of \$15,442,934. General operations resulted in an increase in total Net Position of \$803,265 for calendar year 2014.

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**FINANCIAL HIGHLIGHTS (Continued)**

For the year 2014, 4.077 billion gallons of wastewater were treated at the Authority's three (3) wastewater treatment facilities. Approximately 1.161 billion gallons of water were consumed in 2014 by the Authority's customers and paid for by their user fees. By comparison, 28.5% of the wastewater treated was billable down from 29.6% in 2013. The remaining 2.916 billion gallons of wastewater, down from 2.929 billion gallons from 2013, entered the system from rainwater, groundwater, streams and rivers, water line breaks, firefighting efforts, etc. The 2014 annual rainfall decreased from the previous year; 45.49 inches in 2013 to 36.78 inches in 2014.

Total Operating Revenues were \$13,314,029, an increase of \$2,232,080, or 20% over 2013, primarily caused by the rate increase that occurred in 2014 and the full recognition of the 2013 rate increase.

Operating Expenses were \$7,665,731, an increase of \$5,031 over 2013. The largest increase was a charge for bad debt expense of \$287,213. The largest decreases came from personnel and related employee benefits and a payment to Dravosburg of \$113,649 in 2013.

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**FINANCIAL ANALYSIS**

The following condensed financial statements and other selected information serve as financial data and indicators to help the Authority manage, monitor, and plan.

**Condensed Statement of Net Position**

|                                                              | <u>12/31/2014</u>            | <u>12/31/2013</u>            | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|--------------------------------------------------------------|------------------------------|------------------------------|--------------------------------------|
| Current & Restricted Assets                                  | \$ 9,835,010                 | \$ 11,255,435                | \$ (1,420,425)                       |
| Capital Assets - net of depreciation                         | 93,963,753                   | 93,089,514                   | 874,239                              |
| Other Assets                                                 | 2,758,051                    | 2,542,375                    | 215,676                              |
| Deferred Outflows of Resources                               | 1,512,821                    | 1,574,971                    | (62,150)                             |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS<br/>OF RESOURCES</b> | <b><u>\$ 108,069,635</u></b> | <b><u>\$ 108,462,295</u></b> | <b><u>\$ (392,660)</u></b>           |
| Current Liabilities                                          | \$ 3,517,779                 | \$ 4,358,510                 | \$ (840,731)                         |
| Long-term Liabilities                                        | 89,108,922                   | 89,464,116                   | (355,194)                            |
| <b>TOTAL LIABILITIES</b>                                     | <b><u>\$ 92,626,701</u></b>  | <b><u>\$ 93,822,626</u></b>  | <b><u>\$ (1,195,925)</u></b>         |
| Net Investment in Capital Assets                             | \$ 6,819,924                 | \$ 5,892,168                 | \$ 927,756                           |
| Restricted for Debt Service                                  | 5,569,004                    | 6,089,858                    | (520,854)                            |
| Unrestricted                                                 | 3,054,006                    | 2,657,643                    | 396,363                              |
| <b>TOTAL NET POSITION</b>                                    | <b><u>\$ 15,442,934</u></b>  | <b><u>\$ 14,639,669</u></b>  | <b><u>\$ 803,265</u></b>             |

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

|                               | <u>2014</u>                  | <u>2013</u>                  | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|-------------------------------|------------------------------|------------------------------|--------------------------------------|
| Operating Revenues            | \$ 13,314,029                | \$ 11,081,949                | \$ 2,232,080                         |
| Operating Expenses            | 7,952,944                    | 7,947,913                    | 5,031                                |
| <b>NET OPERATING INCOME</b>   | <b><u>\$ 5,361,085</u></b>   | <b><u>\$ 3,134,036</u></b>   | <b><u>\$ 2,227,049</u></b>           |
| Non-Operating Revenues        | \$ 255,237                   | \$ 2,666,766                 | \$ (2,411,529)                       |
| Non-Operating Expenses        | (4,813,057)                  | (5,043,482)                  | 230,425                              |
| <b>NET NON-OPERATING</b>      | <b><u>\$ (4,557,820)</u></b> | <b><u>\$ (2,376,716)</u></b> | <b><u>\$ (2,181,104)</u></b>         |
| <b>CHANGE IN NET POSITION</b> | <b><u>\$ 803,265</u></b>     | <b><u>\$ 757,320</u></b>     | <b><u>\$ 45,945</u></b>              |

**THE MUNICIPAL AUTHORITY OF  
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**FINANCIAL ANALYSIS (Continued)**

Overall, the Authority's financial condition remained strong in 2014. Most of the ten service communities are up to date with their payments with the exception of East McKeesport which continues to lag one quarter behind due to the length of time it takes to get their consumption numbers from the water authority. The addition of the McKeesport Collection System in 2009, the Duquesne Wastewater Treatment Plant and System in 2010, and the Borough of Dravosburg Wastewater Treatment Plant and System in 2011, as well as, the expressed interest of at least three of the Authority's service communities to sell their systems to the Authority has greatly expanded the scope of the Authority's influence and responsibilities and bodes well for the future success of the Authority. Grant proceeds of \$2,593,712 were received in 2013 and \$211,828 received in 2014 from PENNVEST for the wastewater treatment facility project.

The following table shows the Authority's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues. The effect of the addition of the 'Intergovernmental Agreement Fee' starting in 2012 is reflected in the decrease in operating cash as a percentage of operating revenues.

|                                                      | 2014         | 2013          | Variance    |
|------------------------------------------------------|--------------|---------------|-------------|
| Total operating revenues                             | \$13,314,029 | \$ 11,081,949 | \$2,232,080 |
| Net cash provided by operations                      | \$6,718,419  | \$4,373,072   | 2,345,347   |
| Operating cash as a percentage of operating revenues | 50.5%        | 39.5%         | 11%         |

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

On December 31, 2014, the Authority had \$93,963,753 invested in capital assets, including land, infrastructure, buildings, plant and office machinery and equipment, and vehicles net of depreciation. This amount represents a net increase (including additions, deletions and depreciation) of \$874,239, or approximately .94% from last year.

The Authority had approximately \$2,207,596 in capital additions during the 2014 year, mainly comprised of 1) costs incurred of \$1,742,560 for the Act 537 system improvements and upgrades including WWTP expansion, pump station construction, sanitary sewer construction and force main construction, and 2) \$393,801 for a vactor truck.

A summary of the Authority's capital assets net of accumulated depreciation for the past two years is as follows:

|                              | <u>2014</u>          | <u>2013</u>          | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|------------------------------|----------------------|----------------------|--------------------------------------|
| Land                         | \$ 61,132            | \$ 61,132            | \$ -                                 |
| Infrastructure               | 33,502,793           | 33,502,793           | -                                    |
| Buildings                    | 10,165,226           | 10,159,726           | 5,500                                |
| Plant Machinery & Equipment  | 7,955,983            | 7,993,262            | (37,279)                             |
| Office Machinery & Equipment | 143,791              | 127,306              | 16,485                               |
| Vehicles and Equipment       | 1,354,294            | 1,100,324            | 253,970                              |
|                              | <u>\$ 53,183,219</u> | <u>\$ 52,944,543</u> | <u>\$ 238,676</u>                    |
| Accumulated Depreciation     | (17,485,167)         | (16,378,170)         | (1,106,997)                          |
|                              | <u>\$ 35,698,052</u> | <u>\$ 36,566,373</u> | <u>\$ (868,321)</u>                  |
| Construction in Progress     | 58,265,701           | 56,523,141           | 1,742,560                            |
|                              | <u>\$ 93,963,753</u> | <u>\$ 93,089,514</u> | <u>\$ 874,239</u>                    |

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**DEBT ADMINISTRATION**

As of December 31, 2014, the Authority had total long-term debt outstanding of \$90,615,977. The Authority's debt obligations are comprised of 1) seven sewer revenue bonds, 2) one sewer revenue note, 3) one PENNVEST note, 4) three capital lease obligations with PNC Equipment Finance, and 4) one capital lease obligations with Ally Financial as follows:

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 in the amount of \$10,000,000 for the purpose of 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2014 is \$9,665,000.

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds – Series of 2013 were issued for the purpose of advance refunding a portion (\$11,215,000) of Sewer Revenue Bonds – Series of 2010, leaving a balance at December 31, 2014 of \$13,780,000. Interest rates range between 2.5 and 5.0% and the bonds are scheduled to mature on December 15, 2041.

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**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**DEBT ADMINISTRATION: (Continued)**

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds – Series of 2013 were issued for the purpose of advance refunding a portion (\$500,000) of Sewer Revenue Bonds – Series of 2011, leaving a balance at December 31, 2014 of \$22,645,000. Interest rates range between 2.0 and 4.25% and the bonds are scheduled to mature on December 15, 2030.

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036. The remaining principal balance on the bond issue as of December 31, 2014 is \$5,550,000.

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033. The remaining principal balance on the bond issue as of December 31, 2014 is \$4,640,000.

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**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**DEBT ADMINISTRATION: (Continued)**

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041. The remaining principal balance on the bond issue as of December 31, 2014 is \$13,715,000.

In January of 2014, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2014 under the terms of a Trust Indenture dated February 19, 2014, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$6,410,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2008, 2) fund construction and/or acquisition of capital additions, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at interest rates ranging between 1.0% and 4.65%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2014 is \$6,335,000.

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. As of December 31, 2014, the outstanding balance on this Note obligation is \$546,933.



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**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**DEBT ADMINISTRATION: (Continued)**

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$14,261,912 on the loan as of December 31, 2014. The outstanding balance on the loan as of December 31, 2014 was \$13,377,200.

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016. The remaining principal balance on the lease as of December 31, 2014 is \$65,442.

In March of 2013, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Silverado for \$18,501.80. The terms of the lease call for 3 annual payments of \$6,579.50 at an annual interest rate of 6.84%. The lease is scheduled to expire in March of 2015. The remaining balance on the lease as of December 31, 2014 is \$6,158.

In March of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2014 Vactor Truck for \$352,801. The terms of the lease call for 12 quarterly payments of \$30,242.80 at an annual interest rate of 2.8%. The lease is scheduled to expire in March of 2017. The remaining balance on the lease as of December 31, 2014 is \$266,326.

In May of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2013 Chevrolet Silverado for \$23,917. The terms of the lease call for 3 annual payments of \$8,309.51 at an annual interest rate of 2.1%. The lease is scheduled to expire in May of 2017. The remaining balance on the lease as of December 31, 2014 is \$23,917.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**DEBT ADMINISTRATION: (Continued)**

The Authority is scheduled to make principal and interest payments on their total debt of approximately \$5,253,462 during the 2015 calendar year. The principal and interest payment to be paid in 2015 do not include payments on the PENNVEST note as it is interim amortized at December 31, 2014 nor the Sewer Revenue Note, Series of 2011.

**SUBSEQUENT EVENT**

The Authority had no major subsequent events after December 31, 2014 that would affect the financial statements.

**GENERAL TRENDS AND SIGNIFICANT EVENTS**

Population in the Authority's service area continues to remain fairly constant, with a decrease in the population in the City of McKeesport and the City of Duquesne being offset by increases in other communities such as White Oak Borough, North Versailles Township and Elizabeth Township. It has been estimated that the population in the service area will increase at a rate of 90 persons per year for the next five years.

Throughout the year the Authority continued to work with the PA Department of Environmental Protection to implement its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. These plans were approved in July of 2007. The project design work was completed and submitted to the PA Department of Environmental Protection for review in July of 2009 and approved in July of 2010. Fifteen construction projects were put out for bid in February of 2011 and awarded in May. The project involves significant new treatment processes, pumping stations & interceptor lines with an associated capital cost of approximately sixty-two (62.5) million dollars, which is set to be completed in 2015. In order to prevent a huge increase in the sewer rates the Authority has chosen to issue a series of bonds at a rate of one per year. By doing this the Authority has been able to step the necessary rate increases over a period of several years.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013

**GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)**

To do this, a ten (10) million dollar bond was issued in 2009 and the rates were increased by \$0.74/1000 gallons, or 20.5%, a fourteen (14) million dollar bond was issued in 2010 which increased the rates \$0.86/1000 gallons, or 19.4%, a twenty-five (25) million dollar bond was issued in 2011 raising the rates \$0.80/1000 gallons, or 15.1%, two bonds were issued in 2012 totaling eleven (11) million dollars with no rate increase, and finally a fourteen (14) million dollar bond was issued in 2013 raising the rates \$1.75/1000 gallons, or 28%. In 2014 the Authority issued a \$6.4 million dollar bond to refund the Authority's outstanding Sewer Revenue Bonds Series of 2008, raising rates \$0.10/1000 gallons, or 1%, due to increased utility costs for operation of the new treatment plant processes that have gone online.

The US Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result the federal government funded the relocation of most of the CSO structures. Construction for Phase 1 of the project was completed in 2007 and phase (II) of the project was completed in 2010. One remaining outfall, Evans Avenue, remains to be raised to complete the project, however funding was not available in 2011 and currently still remains unfunded. The Authority's new outfall structures have greatly reduced the amount of river water that flows back through the pipes and into the sewer lines. This in return has reduced the costs associated with treating unnecessary water.

**CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to show the Board of Directors' accountability for the money they administer on behalf of the customers of the Municipal Authority of the City of McKeesport. If you have questions about this report or wish to request additional financial information, please contact the Authority offices at 100 Atlantic Avenue, McKeesport, PA 15132, (412)-673-8276.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31,**

|                                                           | <u>2014</u>                  | <u>2013</u>                  |
|-----------------------------------------------------------|------------------------------|------------------------------|
| <b><u>ASSETS</u></b>                                      |                              |                              |
| <b>CURRENT ASSETS:</b>                                    |                              |                              |
| Cash and Cash Equivalents                                 | \$ 1,440,931                 | \$ 1,015,111                 |
| Cash and Cash Equivalents - Restricted                    | 70,363                       | 114,693                      |
| Sewage Service Receivable                                 | 1,771,506                    | 1,192,983                    |
| Delinquent Sewage Service Receivable - City of McKeesport | 192,458                      | 192,458                      |
| Allowance for Doubtful Accounts                           | (287,213)                    | -                            |
| Accrued Sewage Service (Unbilled)                         | 1,078,300                    | 1,153,934                    |
| Deposits                                                  | 3,000                        | 3,000                        |
| <b>TOTAL CURRENT ASSETS</b>                               | <b><u>\$ 4,269,345</u></b>   | <b><u>\$ 3,672,179</u></b>   |
| <b>RESTRICTED ASSETS:</b>                                 |                              |                              |
| Investments                                               | \$ 8,323,716                 | \$ 10,125,631                |
| <b>TOTAL RESTRICTED ASSETS</b>                            | <b><u>\$ 8,323,716</u></b>   | <b><u>\$ 10,125,631</u></b>  |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                     |                              |                              |
| Land                                                      | \$ 61,132                    | \$ 61,132                    |
| Infrastructure                                            | 33,502,793                   | 33,502,793                   |
| Buildings                                                 | 10,165,226                   | 10,159,726                   |
| Plant Machinery and Equipment                             | 7,955,983                    | 7,993,262                    |
| Office Machinery and Equipment                            | 143,791                      | 127,306                      |
| Vehicles and Equipment                                    | 1,354,294                    | 1,100,324                    |
|                                                           | <u>\$ 53,183,219</u>         | <u>\$ 52,944,543</u>         |
| Less: Accumulated Depreciation                            | (17,485,167)                 | (16,378,170)                 |
|                                                           | <u>\$ 35,698,052</u>         | <u>\$ 36,566,373</u>         |
| Construction in Progress                                  | 58,265,701                   | 56,523,141                   |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b>                  | <b><u>\$ 93,963,753</u></b>  | <b><u>\$ 93,089,514</u></b>  |
| <b>TOTAL ASSETS</b>                                       | <b><u>\$ 106,556,814</u></b> | <b><u>\$ 106,887,324</u></b> |
| <b><u>DEFERRED OUTFLOW OF RESOURCES</u></b>               |                              |                              |
| Deferred Interest on Advance Refunding                    | \$ 1,512,821                 | \$ 1,574,971                 |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>               | <b><u>\$ 1,512,821</u></b>   | <b><u>\$ 1,574,971</u></b>   |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>    | <b><u>\$ 108,069,635</u></b> | <b><u>\$ 108,462,295</u></b> |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31,**  
**(CONTINUED)**

|                                            | <u>2014</u>                  | <u>2013</u>                  |
|--------------------------------------------|------------------------------|------------------------------|
| <b><u>LIABILITIES AND NET POSITION</u></b> |                              |                              |
| <b>CURRENT LIABILITIES:</b>                |                              |                              |
| Accounts Payable                           | \$ 349,186                   | \$ 678,020                   |
| Retainage Payable                          | 1,286,154                    | 1,924,418                    |
| Accrued Payroll and Taxes                  | 103,698                      | 92,370                       |
| Sewage Service Deposits                    | 2,550                        | 5,950                        |
| Accrued Interest                           | 137,801                      | 140,223                      |
| Capital Leases - Current Portion           | 163,390                      | 117,529                      |
| Current Portion of Bonds Payable           | 1,475,000                    | 1,400,000                    |
| <b>TOTAL CURRENT LIABILITIES</b>           | <b><u>\$ 3,517,779</u></b>   | <b><u>\$ 4,358,510</u></b>   |
| <b>LONG-TERM LIABILITIES:</b>              |                              |                              |
| Bonds Payable - Long Term Portion (Net)    | \$ 74,235,443                | \$ 75,051,396                |
| Pennvest Loan Payable                      | 13,377,200                   | 13,694,905                   |
| Sewer Revenue Note 2011                    | 546,934                      | 93,954                       |
| Capital Leases - Long Term Portion         | 198,453                      | 71,600                       |
| Net OPEB Liability                         | 602,595                      | 407,849                      |
| Compensated Absences                       | 148,297                      | 144,412                      |
| <b>TOTAL LONG-TERM LIABILITIES</b>         | <b><u>\$ 89,108,922</u></b>  | <b><u>\$ 89,464,116</u></b>  |
| <b>TOTAL LIABILITIES</b>                   | <b><u>\$ 92,626,701</u></b>  | <b><u>\$ 93,822,626</u></b>  |
| <b>NET POSITION:</b>                       |                              |                              |
| Net Investment in Capital Assets           | \$ 6,819,924                 | \$ 5,892,168                 |
| Restricted for Debt Service                | 5,569,004                    | 6,089,858                    |
| Unrestricted                               | 3,054,006                    | 2,657,643                    |
| <b>TOTAL NET POSITION</b>                  | <b><u>\$ 15,442,934</u></b>  | <b><u>\$ 14,639,669</u></b>  |
| <b>TOTAL LIABILITIES AND NET POSITION</b>  | <b><u>\$ 108,069,635</u></b> | <b><u>\$ 108,462,295</u></b> |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                                                      | <u>2014</u>           | <u>2013</u>           |
|----------------------------------------------------------------------|-----------------------|-----------------------|
| <b><u>OPERATING REVENUES</u></b>                                     |                       |                       |
| Sewage Treatment Services                                            | \$ 13,068,117         | \$ 10,863,476         |
| Sludge Hauling                                                       | 110,683               | 97,750                |
| Tap Fees and Permits                                                 | 80,500                | 21,250                |
| Miscellaneous                                                        | 54,729                | 99,473                |
|                                                                      | <u>13,314,029</u>     | <u>11,081,949</u>     |
| <b>TOTAL OPERATING REVENUES</b>                                      | <b>\$ 13,314,029</b>  | <b>\$ 11,081,949</b>  |
| <b><u>OPERATING EXPENSES</u></b>                                     |                       |                       |
| Personnel Costs                                                      | \$ 4,023,979          | \$ 4,061,889          |
| Professional Services                                                | 255,492               | 308,558               |
| Sewage Plant Costs                                                   | 1,687,267             | 1,861,463             |
| Other General and Administrative                                     | 375,446               | 398,879               |
| Bad Debt Expense                                                     | 287,213               | -                     |
| Depreciation                                                         | 1,323,547             | 1,317,124             |
|                                                                      | <u>7,952,944</u>      | <u>7,947,913</u>      |
| <b>TOTAL OPERATING EXPENSES</b>                                      | <b>\$ 7,952,944</b>   | <b>\$ 7,947,913</b>   |
| <b>NET OPERATING INCOME BEFORE NON-OPERATING REVENUE AND EXPENSE</b> | <b>\$ 5,361,085</b>   | <b>\$ 3,134,036</b>   |
| <b><u>NON-OPERATING REVENUE AND (EXPENSE)</u></b>                    |                       |                       |
| Interest Income                                                      | \$ 12,219             | \$ 73,054             |
| PENNVEST Grant Proceeds                                              | 211,828               | 2,593,712             |
| Intergovernmental Agreement Fee                                      | (1,020,100)           | (1,010,000)           |
| Interest on Long-Term Debt                                           | (3,568,314)           | (3,607,211)           |
| Bond Issue Costs                                                     | (224,643)             | (416,110)             |
| Gain <Loss> on Disposal of Fixed Assets                              | 31,190                | (10,161)              |
| <b>TOTAL NON-OPERATING REVENUE AND (EXPENSE)</b>                     | <b>\$ (4,557,820)</b> | <b>\$ (2,376,716)</b> |
| <b>INCREASE &lt;DECREASE&gt; IN NET POSITION</b>                     | <b>\$ 803,265</b>     | <b>\$ 757,320</b>     |
| NET POSITION - JANUARY 1,                                            | 14,639,669            | 16,196,656            |
| Prior Period Adjustment                                              | -                     | (2,314,307)           |
| <b>NET POSITION - DECEMBER 31,</b>                                   | <b>\$ 15,442,934</b>  | <b>\$ 14,639,669</b>  |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                                                                                    | <u>2014</u>                  | <u>2013</u>                   |
|----------------------------------------------------------------------------------------------------|------------------------------|-------------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                                 |                              |                               |
| Cash Received from Sewage Billings                                                                 | \$ 12,807,740                | \$ 10,821,595                 |
| Cash Paid to Employees for Salaries and Benefits                                                   | (3,814,020)                  | (3,843,206)                   |
| Cash Paid to Suppliers for Goods and Services                                                      | (2,275,301)                  | (2,605,317)                   |
| <b>Net Cash Provided by Operating Activities</b>                                                   | <b><u>\$ 6,718,419</u></b>   | <b><u>\$ 4,373,072</u></b>    |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                             |                              |                               |
| (Increase) Decrease in Restricted Assets                                                           | \$ 1,801,915                 | \$ 6,243,138                  |
| Proceeds from Bond Issues                                                                          | 6,410,000                    | 13,715,000                    |
| Proceeds from Sewer Revenue Note                                                                   | 920,983                      | 4,612,761                     |
| Proceeds from Pennvest Loan                                                                        | 211,828                      | 2,593,712                     |
| Grant Proceeds                                                                                     | 211,828                      | 2,593,712                     |
| Proceeds from Capital Leases                                                                       | 376,718                      | 18,502                        |
| Principal Payments - Dravosburg                                                                    | -                            | (75,000)                      |
| Bond Issue Costs                                                                                   | (224,643)                    | (643,044)                     |
| Principal Payments on Long-Term Debt                                                               | (8,251,540)                  | (25,670,349)                  |
| Interest Paid on Long-Term Debt                                                                    | (3,492,082)                  | (3,565,061)                   |
| Interest Deposited with Escrow Agent for Advance Refunding                                         | -                            | (1,356,831)                   |
| Purchase of Property and Equipment (Net of Refund)                                                 | (3,294,056)                  | (11,093,756)                  |
| <b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>                    | <b><u>\$ (5,329,049)</u></b> | <b><u>\$ (12,627,216)</u></b> |
| <b><u>CASH FLOWS FROM NON CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                         |                              |                               |
| Intergovernmental Agreement Fee                                                                    | \$ (1,020,100)               | \$ (1,010,000)                |
| Insurance Reimbursement                                                                            | -                            | 35,000                        |
| <b>Net Cash (Used for) Non Capital and Related Financing Activities</b>                            | <b><u>\$ (1,020,100)</u></b> | <b><u>\$ (975,000)</u></b>    |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                                 |                              |                               |
| Interest Income Received                                                                           | \$ 12,220                    | \$ 73,054                     |
| <b>Net Cash Provided By Investing Activities</b>                                                   | <b><u>\$ 12,220</u></b>      | <b><u>\$ 73,054</u></b>       |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                        | <b>\$ 381,490</b>            | <b>\$ (9,156,090)</b>         |
| CASH AND CASH EQUIVALENTS - JANUARY 1                                                              | <u>1,129,804</u>             | <u>10,285,894</u>             |
| <b>CASH AND CASH EQUIVALENTS - DECEMBER 31</b>                                                     | <b><u>\$ 1,511,294</u></b>   | <b><u>\$ 1,129,804</u></b>    |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>             |                              |                               |
| Net Operating Income                                                                               | \$ 5,361,085                 | \$ 3,134,036                  |
| <b>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:</b> |                              |                               |
| Depreciation                                                                                       | 1,323,547                    | 1,317,124                     |
| Bad Debt Expense                                                                                   | 287,213                      | -                             |
| <b>Change in Current Assets and Liabilities:</b>                                                   |                              |                               |
| (Increase) Decrease in Accounts Receivable                                                         | (502,889)                    | (295,004)                     |
| Increase (Decrease) in Accounts Payable                                                            | 42,904                       | (1,419)                       |
| Increase (Decrease) in Accrued Expenses                                                            | 11,328                       | 1,445                         |
| Increase (Decrease) in Sewage Service Deposits                                                     | (3,400)                      | (350)                         |
| Increase (Decrease) in Net OPEB Obligation                                                         | 194,746                      | 200,795                       |
| Increase (Decrease) in Accumulated Compensated Absences                                            | 3,885                        | 16,445                        |
| <b>Net Cash Provided by Operating Activities</b>                                                   | <b><u>\$ 6,718,419</u></b>   | <b><u>\$ 4,373,072</u></b>    |

The accompanying notes are an integral part of these financial statements.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipal Authority of the City of McKeesport (the Authority) is a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipality Authorities Act of 1945. The Act was repealed by the Act 22 of June 19, 2001 (P.L. 287, No. 22). The Council of the City of McKeesport (the City) created the Authority on November 29, 1949 under an order from the Sanitary Water Board of the Commonwealth of Pennsylvania. The Authority was created for a period of 50 years to end December 5, 1999, and was subsequently extended through December 5, 2057. The Authority was created for the purpose of acquiring, holding, constructing, improving, maintaining and operating, owning and leasing (either in capacity as lessor or lessee) certain projects. These projects include sewers, sewer systems or parts thereof, sewage treatment works, also including the acquisition of land for sewage treatment works and pumping stations, and all other necessary facilities and apparatus that the Board of Directors may authorize as necessary for the project. The Authority provides waste collection and treatment services, under agreement, for the following municipalities:

|                         |                          |
|-------------------------|--------------------------|
| City of McKeesport      | White Oak Borough        |
| Port Vue Borough        | Liberty Borough          |
| East McKeesport Borough | Elizabeth Authority      |
| Glassport Borough       | Lincoln Borough          |
| Versailles Borough      | North Versailles Borough |
| City of Duquesne        | Dravosburg Borough       |

Per the terms of these agreements, the Authority is the provider of sewage treatment and disposal service to the above municipalities, and these municipalities have agreed to construct and maintain such sewers, interceptors and pumping stations as is necessary to bring the sewage and industrial waste to a point where it flows into the interceptors of the Authority.

The five-members of the Authority Board of Directors are appointed by the members of Council of the City of McKeesport. Revenue or other cash received must be disbursed in accordance with provisions of the Trust Indentures dated October 1, 2006, as amended and supplemented by the First Supplemental Trust Indenture dated as of October 2, 2008, as amended and supplemented by the Second Supplemental Trust Indenture dated as of December 1, 2009, as amended and supplemented by the Third Supplemental Trust Indenture dated as of December 28, 2010, as amended and supplemented by the Fourth Supplemental Trust Indenture dated August 31, 2011, as amended and supplemented by the Fifth Supplemental Trust Indenture dated January 5, 2012, as amended and supplemented by the Sixth Supplemental Trust Indenture dated August 23, 2012, as amended and supplemented by the Seventh Supplemental Trust Indenture dated January 16, 2013, and as amended and supplemented by the Eighth Supplemental Trust Indenture dated February 19, 2014 by and between the Authority and the Bank of New York Mellon Trust Company as trustee, securing the Sewer Revenue Bonds Series of 2009, 2010, 2011, 2012, 2012B, 2013 and 2014 respectively.

The financial statement of the Municipal Authority of the City of McKeesport have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 'enterprise (proprietary) funds'. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). During 2013, the Authority adopted the provisions of Government Accounting Standards Board (GASB) No. 65, 'Items Previously Reported as Assets and Liabilities' and GASB No. 66, 'Technical Corrections, an Amendment of GASB Statements No. 10 and 62'.



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The more significant accounting policies established in GAAP and used by the Authority are discussed below.

**REPORTING ENTITY**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Municipal Authority of the City of McKeesport consists of all funds, departments, boards and agencies that are not legally separate from the Authority. As defined by GASB No. 14, component units are legally separate entities that included in the Authority's reporting entity because of the significance of their operating or financial relationships with the Authority. Based on the application of these criteria, the Municipal Authority of the City of McKeesport has no component units.

**BASIS OF ACCOUNTING**

The Authority is accounted for as an enterprise fund since its operations are financed and operated in a manner similar to the private sector. The Authority utilizes the accrual method of accounting. Under this method, revenues are recognized when earned rather than when cash is received, and expenses are recognized when an obligation is incurred rather than when cash is actually paid.

**CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash and cash equivalents include amounts in demand deposit accounts, and any other short-term highly liquid assets with original maturity terms of less than three months. Cash and cash equivalents – restricted represents the balance of PNC Sewer Revenue Note funds (Note 4) and funds received from the Pennsylvania Infrastructure Investment Authority (Note 4) restricted for the Authority's Waste Water Treatment Plant (WWTP) expansion project.

**INVESTMENTS**

The Municipal Authorities Act authorizes the Authority to invest in the following:

- I. U.S. Treasury Bills
- II. Short-term obligation of the U.S. Government or its agencies or instrumentalities
- III. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation and National Credit Union Share Insurance Fund (NCUSIF)
- IV. Obligations of the United States of America, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth of Pennsylvania, or any of their agencies or instrumentalities backed by the full faith and credit of the governmental units
- V. Shares of an investment company registered under the Investment Company Act of 1940, and registered under the Securities Act of 1933
- VI. Any investment authorized by 20 Pa. C.S. Ch. 73 relating to fiduciaries investments.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**INVESTMENTS (Continued)**

In addition, the Board of Directors can invest the Authority's sinking funds as authorized for local governments in the Local government Unit Debt Act, 53 Pa.C.S. 8224. Investment of the Authority's restricted assets are made pursuant to and restricted by the aforementioned Trust Indentures securing the Sewer Revenue Bonds Series of 2009, 2010, 2011, 2012, 2012B, 2013, and 2014. Investments for 2014 and 2013 (See Restricted Assets) include Dreyfus Government cash management agency fund shares, certificates of deposit, corporate notes, fixed income investments with the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. Investments are stated at fair value. The Authority is in compliance with these restrictions as of December 31, 2014 and 2013.

**RESTRICTED ASSETS**

In accordance with the provisions of the aforementioned Trust Indentures, by and between the Bank of New York Mellon Trust Company and the Municipal Authority of the City of McKeesport, which secure the Authority's Sewer Revenue Bonds, the Authority is obligated to restrict certain funds to pay for construction related expenditures and to meet debt service requirements. These funds are reflected in Exhibit A as 'restricted assets' and are further detailed in Note 2.

**ACCOUNTS RECEIVABLE**

Accounts receivable are stated at net realizable value. Receivables are mainly comprised of billed and unbilled sewage services rendered to the participating municipalities as herein described in Note 1. Management utilizes the allowance method for charging bad debt expense to operations for customer accounts receivable. Management estimates a provision for bad debts of \$287,213 for the year ended December 31, 2014.

**INVENTORY**

The Authority does not maintain a physical inventory of materials, chemicals, and other supplies. Management estimates that inventory values during the year are minimal for cost control purposes. Accordingly, management is of the opinion that any value that existed at December 31, 2014 and 2013 would not materially affect the financial position of the Authority.

**ESTIMATES**

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

**UNEARNED REVENUE**

Unearned revenue arises when the Authority receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the unearned revenue liability is removed and revenue is recognized.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**LONG-TERM DEBT FINANCING COSTS**

Bond issuance costs are recorded as expenditures in the financial statements in the year paid. During the 2014 calendar year, the Authority paid \$224,643 in bond issuance costs as reflected on the statement of revenues, expenditures, and changes in net position (Exhibit B).

**PROPERTY, PLANT, AND EQUIPMENT**

The Authority records property, plant and equipment purchases at cost. Property, plant and equipment include major betterments that extend the economic useful life of the assets affected. The Authority maintains a capitalization threshold of \$500. Routine repair and maintenance costs are charged to operations as incurred. Depreciation expense is calculated on a straight-line basis over the estimated useful life of the asset as follows:

|                         |            |
|-------------------------|------------|
| Infrastructure          | 50 Years   |
| Buildings               | 40 Years   |
| Machinery and Equipment | 3-20 Years |
| Vehicles                | 7-10 Years |

Depreciation expense for the year ended December 31, 2014 and 2013 was \$1,323,547 and 1,317,124 respectively. Construction in progress represents funds paid toward the following Authority projects:

|                                             | <u>12/31/2014</u>    | <u>12/31/2013</u>    |
|---------------------------------------------|----------------------|----------------------|
| Act 537 System Improvements Project:        |                      |                      |
| Engineering and Other Professional Fees     | \$ 4,502,330         | \$ 4,107,989         |
| WWTP Expansion Project                      | 32,020,182           | 30,827,989           |
| Pump Stations Construction                  | 17,575,682           | 17,419,656           |
| East/West Shore Sanitary Sewer Construction | 1,506,357            | 1,506,357            |
| Rotary Press Project                        | 867,570              | 867,570              |
| River Crossing Force Main                   | 1,793,580            | 1,793,580            |
|                                             | <u>\$ 58,265,701</u> | <u>\$ 56,523,141</u> |

**NET POSITION**

Net Position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy Authority obligations. Net Position is classified 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 debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted Net Position – This component of Net Position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.
- Unrestricted – Consists of all other Net Position that does not meet the definition of 'restricted' or 'net investment in capital assets'.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**NET POSITION (Continued)**

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

In addition to assets and liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows and/or inflows of resources. These separate financial statement elements represent a decrease and/or increase in net position that applies to a future period and so will not be recognized as an outflow and/or inflow of resources (expense/expenditure or income/revenue) in the current period.

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Municipal Authority of the City of McKeesport, these revenues are sewer user charges, sludge hauling fees, tap-in fees, and other miscellaneous revenues generated from operating activities. Operating expenses are the necessary costs incurred to operate the Authority. Non-operating revenues of the Authority consist of grant and interest revenue. Non-operating expenses consist of interest on long-term debt and bond issuance cost expense.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**CASH DEPOSITS:**

At December 31, 2014 and 2013, the Authority had the following bank balances and carrying value on its' cash and cash equivalent accounts:

|                                                                    | <b>--- December 31, 2014 ---</b> |                            | <b>--- December 31, 2013 ---</b> |                            |
|--------------------------------------------------------------------|----------------------------------|----------------------------|----------------------------------|----------------------------|
|                                                                    | <b>Bank<br/>Balance</b>          | <b>Carrying<br/>Value</b>  | <b>Bank<br/>Balance</b>          | <b>Carrying<br/>Value</b>  |
| Cash and Cash<br>Equivalents                                       | \$ 1,388,096                     | \$ 1,511,294               | \$ 1,140,937                     | \$ 1,129,804               |
| Certificates of Deposit<br>(Shown as part of<br>Restricted Assets) | <u>4,655,000</u>                 | <u>4,655,000</u>           | <u>3,385,070</u>                 | <u>3,385,070</u>           |
|                                                                    | <b><u>\$ 6,043,096</u></b>       | <b><u>\$ 6,166,294</u></b> | <b><u>\$ 4,526,007</u></b>       | <b><u>\$ 4,514,874</u></b> |

The difference between the bank balance and the carrying value represents reconciling items such as deposits in transit and outstanding checks. The Federal Deposit Insurance Corporation (FDIC) coverage threshold for government accounts is \$250,000 per official custodian. This coverage includes checking and savings accounts, money market deposit accounts, and certificates of deposit.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**CASH DEPOSITS: (Continued)**

**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 to it. The Authority does not have a separate policy for custodial credit risk in addition to the requirements of State Law. As of December 31, 2014 and 2013, \$1,138,096 and \$890,937 respectively of the Authority's bank balance totals are exposed to custodial credit risk as these amounts represent uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Authority's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, the aforementioned deposits, in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

**INVESTMENTS:**

The fair value and maturity term of the Authority's investments as of December 31, 2014 and 2013 is as follows:

|                          | ----- December 31, 2014 ----- |                               |                     |
|--------------------------|-------------------------------|-------------------------------|---------------------|
|                          | <u>Fair Value</u>             | <u>No Stated<br/>Maturity</u> | <u>0-1 Years</u>    |
| Dreyfus Cash Mgt Funds   | \$ 1,020,442                  | \$ 1,020,442                  | \$ -                |
| U.S. Agency Fixed Income | 2,648,274                     | -                             | 2,648,274           |
|                          | <u>\$ 3,668,716</u>           | <u>\$ 1,020,442</u>           | <u>\$ 2,648,274</u> |
|                          | ----- December 31, 2013 ----- |                               |                     |
|                          | <u>Fair Value</u>             | <u>No Stated<br/>Maturity</u> | <u>0-1 Years</u>    |
| Dreyfus Cash Mgt Funds   | \$ 3,240,399                  | \$ 3,240,399                  | \$ -                |
| U.S. Agency Fixed Income | 3,500,162                     | -                             | 3,500,162           |
|                          | <u>\$ 6,740,561</u>           | <u>\$ 3,240,399</u>           | <u>\$ 3,500,162</u> |

Investments classified as U.S. Agencies are securities of agencies of the U.S. Government that have an implied but not explicit guarantee.

**Credit Risk:**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has no formal investment policy that limits its investment choices based on credit ratings by nationally recognized rating organizations. As of December 31, 2014 and 2013, investments in U.S. Agencies and Corporate Notes have received an 'AA+' rating from Standard & Poors.

**Custodial Credit Risk:**

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**INVESTMENTS: (Continued)**

**Custodial Credit Risk: (Continued)**

The Authority's investments in Dreyfus Cash Management Agency Funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Authority does not have a formal investment policy for custodial credit risk.

**Interest Rate Risk:**

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. The Authority's certificate of deposit, corporate note, and U.S. Agency fixed income security investments have maturity terms of less than 1 year.

**Concentration of Credit Risk:**

The Authority places no limit on the amount it may invest in any one issuer.

The Authority's restricted assets as of December 31, 2014 and 2013 are comprised of the following:

|                    | <u>12/31/2014</u>   | <u>12/31/2013</u>    |
|--------------------|---------------------|----------------------|
| Construction Funds | \$ 2,752,803        | \$ 4,035,773         |
| Clearing Fund      | 1,909               | -                    |
| Debt Service Funds | 5,569,004           | 6,089,858            |
|                    | <u>\$ 8,323,716</u> | <u>\$ 10,125,631</u> |

**NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT**

The following comprises the changes to the Authority's property, plant, and equipment account during 2014 and 2013:

|                                | <u>Balance</u><br><u>1/1/2014</u> | <u>Additions</u>    | <u>Deletions</u>    | <u>Balance</u><br><u>12/31/2014</u> |
|--------------------------------|-----------------------------------|---------------------|---------------------|-------------------------------------|
| Land                           | \$ 61,132                         | \$ -                | \$ -                | \$ 61,132                           |
| Infrastructure                 | 33,502,793                        | -                   | -                   | 33,502,793                          |
| Buildings                      | 10,159,726                        | 5,500               | -                   | 10,165,226                          |
| Plant Machinery and Equipment  | 7,993,262                         | 17,096              | (54,375)            | 7,955,983                           |
| Office Machinery and Equipment | 127,306                           | 20,470              | (3,985)             | 143,791                             |
| Vehicles and Equipment         | 1,100,324                         | 421,970             | (168,000)           | 1,354,294                           |
|                                | <u>\$ 52,944,543</u>              | <u>\$ 465,036</u>   | <u>\$ (226,360)</u> | <u>\$ 53,183,219</u>                |
| Less: Accumulated Depreciation | (16,378,170)                      | (1,323,547)         | 216,550             | (17,485,167)                        |
|                                | <u>\$ 36,566,373</u>              | <u>\$ (858,511)</u> | <u>\$ (9,810)</u>   | <u>\$ 35,698,052</u>                |
| Construction in Progress       | 56,523,141                        | 1,742,560           | -                   | 58,265,701                          |
|                                | <u>\$ 93,089,514</u>              | <u>\$ 884,049</u>   | <u>\$ (9,810)</u>   | <u>\$ 93,963,753</u>                |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT (Continued)**

|                                | <b>Balance</b><br><b>1/1/2013</b> | <b>Additions</b>     | <b>Deletions</b>   | <b>Balance</b><br><b>12/31/2013</b> |
|--------------------------------|-----------------------------------|----------------------|--------------------|-------------------------------------|
| Land                           | \$ 61,132                         | \$ -                 | \$ -               | \$ 61,132                           |
| Infrastructure                 | 33,159,918                        | 342,875              | -                  | 33,502,793                          |
| Buildings                      | 10,141,872                        | 17,854               | -                  | 10,159,726                          |
| Plant Machinery and Equipment  | 7,951,625                         | 46,045               | (4,408)            | 7,993,262                           |
| Office Machinery and Equipment | 114,890                           | 12,416               | -                  | 127,306                             |
| Vehicles and Equipment         | 1,112,547                         | 18,502               | (30,725)           | 1,100,324                           |
|                                | <u>\$ 52,541,984</u>              | <u>\$ 437,692</u>    | <u>\$ (35,133)</u> | <u>\$ 52,944,543</u>                |
| Less: Accumulated Depreciation | (15,086,018)                      | (1,317,124)          | 24,972             | (16,378,170)                        |
|                                | <u>\$ 37,455,966</u>              | <u>\$ (879,432)</u>  | <u>\$ (10,161)</u> | <u>\$ 36,566,373</u>                |
| Construction in Progress       | 44,364,174                        | 12,158,967           | -                  | 56,523,141                          |
|                                | <u>\$ 81,820,140</u>              | <u>\$ 11,279,535</u> | <u>\$ (10,161)</u> | <u>\$ 93,089,514</u>                |

**NOTE 4 – LONG-TERM DEBT**

**SEWER REVENUE BONDS – SERIES OF 2009**

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 under the terms of a Trust Indenture dated December 1, 2009, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

**SEWER REVENUE BONDS – SERIES OF 2010**

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 2.0 and 5.16%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2040.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**SEWER REVENUE BONDS – SERIES OF 2011**

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.25 and 5.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2030.

**SEWER REVENUE BONDS – SERIES OF 2012**

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036.

**SEWER REVENUE BONDS – SERIES B OF 2012**

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033.

**SEWER REVENUE BONDS – SERIES OF 2013**

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041.



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 4 – LONG-TERM DEBT (Continued)**

**SEWER REVENUE BONDS – SERIES OF 2014**

In January of 2014, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2014 under the terms of a Trust Indenture dated February 19, 2014, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$6,410,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2008, 2) fund construction and/or acquisition of capital additions, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at interest rates ranging between 1.0% and 4.65%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

The following summarizes the Authority's bond debt service obligations of the Authority as of December 31, 2014:

| <b>Year</b> | <b>2009<br/>Principal</b> | <b>2010<br/>Principal</b> | <b>2011<br/>Principal</b> | <b>2012<br/>Principal</b> |
|-------------|---------------------------|---------------------------|---------------------------|---------------------------|
| 2015        | \$ 175,000                | \$ 20,000                 | \$ 1,060,000              | \$ 185,000                |
| 2016        | 185,000                   | 25,000                    | 1,085,000                 | 190,000                   |
| 2017        | 190,000                   | 45,000                    | 1,110,000                 | 190,000                   |
| 2018        | 200,000                   | 65,000                    | 1,145,000                 | 195,000                   |
| 2019        | 210,000                   | 85,000                    | 1,190,000                 | 200,000                   |
| 2020-2024   | 1,210,000                 | 825,000                   | 6,735,000                 | 1,075,000                 |
| 2025-2029   | 1,550,000                 | 1,045,000                 | 8,395,000                 | 1,275,000                 |
| 2030-2034   | 2,045,000                 | 2,165,000                 | 1,925,000                 | 1,535,000                 |
| 2035-2039   | 3,900,000                 | 6,440,000                 | -                         | 705,000                   |
| 2040-2041   | -                         | 3,065,000                 | -                         | -                         |
|             | <u>\$ 9,665,000</u>       | <u>\$ 13,780,000</u>      | <u>\$ 22,645,000</u>      | <u>\$ 5,550,000</u>       |

| <b>Year</b> | <b>2012 B<br/>Principal</b> | <b>2013<br/>Principal</b> | <b>2014<br/>Principal</b> | <b>Interest</b>      | <b>Total</b>          |
|-------------|-----------------------------|---------------------------|---------------------------|----------------------|-----------------------|
| 2015        | \$ 5,000                    | \$ -                      | \$ 30,000                 | \$ 3,608,748         | \$ 5,083,748          |
| 2016        | 5,000                       | -                         | 30,000                    | 3,574,641            | 5,094,641             |
| 2017        | 5,000                       | -                         | 30,000                    | 3,538,754            | 5,108,754             |
| 2018        | 5,000                       | -                         | 30,000                    | 3,492,388            | 5,132,388             |
| 2019        | 5,000                       | -                         | 30,000                    | 3,431,244            | 5,151,244             |
| 2020-2024   | 25,000                      | -                         | 175,000                   | 16,043,518           | 26,088,518            |
| 2025-2029   | 25,000                      | -                         | 730,000                   | 13,570,250           | 26,590,250            |
| 2030-2034   | 4,565,000                   | 1,720,000                 | 2,355,000                 | 10,036,103           | 26,346,103            |
| 2035-2039   | -                           | 6,340,000                 | 2,925,000                 | 5,382,383            | 25,692,383            |
| 2040-2041   | -                           | 5,655,000                 | -                         | 573,350              | 9,293,350             |
|             | <u>\$ 4,640,000</u>         | <u>\$ 13,715,000</u>      | <u>\$ 6,335,000</u>       | <u>\$ 63,251,379</u> | <u>\$ 139,581,379</u> |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 4 – LONG-TERM DEBT (Continued)**

**DEFERRED FINANCING COSTS AND BOND PREMIUMS**

The bond discounts in connection with the Authority's currently outstanding bond issues totaled \$1,466,506. This amount is being amortized on a straight-line basis over the life of the bond issues and is charged as a component of interest expense in the statement of revenues, expenses and changes in net position. The unamortized amount of bond discount at December 31, 2014 and 2013 totaling \$1,292,670 and \$1,234,682 respectively, is reflected in Exhibit A as a reduction in 'bonds payable - long-term portion'. The amount of discount charged to interest expense was \$59,469 and \$46,206 for 2014 and 2013 respectively.

The bond premium in connection with the Series of 2011 Sewer Revenue Bonds was \$816,328. This amount is being accreted on a straight-line basis over the life of the bond issue and is credited as a component of interest expense in the statement of revenues, expenses and changes in net position. The un-accreted amount of bond premium was \$673,113 and \$716,078 for at December 31, 2014 and 2013 respectively, and is reflected in Exhibit A as an addition to 'bonds payable - long-term portion'. The amount of premium credited to interest expense was \$42,965 for 2014 and 2013.

In connection with the issuance of Sewer Revenue Bonds – Series B of 2012 and Series of 2013, the Authority entered into irrevocable trust agreements with the Bank of New York Mellon Trust Company to purchase U.S. Government Securities in an amount sufficient to fully service a portion of the Series of 2008, Series of 2010, and Series of 2011 Sewer Revenue Bond Issue debt as they mature or are called. For financial reporting purposes, these bonds are considered defeased and therefore removed as a liability from the Authority's financial statements.

The difference between the defeased debt and the reacquisition price (amount deposited with escrow agent for refunding purposes) totaling \$1,627,427, is considered 'deferred interest' and is being amortized over the life of the new bond issue. The annual amortization of this deferred interest, \$62,150 for 2014 and \$29,571 for 2013, is reflected as a component of interest expense in the Statement of Revenues, Expenses and Changes in Net Position (Exhibit B). The unamortized amount of deferred interest at December 31, 2013 and December 31, 2014 totaling \$1,574,971 and \$1,512,821 respectively is reflected in Exhibit A as 'Deferred Outflows of Resources'.

**SEWER REVENUE NOTE – SERIES OF 2011**

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. As of December 31, 2014, the outstanding balance on this Note obligation is \$546,934.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**PENNVEST**

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$14,261,912 on the loan as of December 31, 2014. This loan has not been final amortized as of December 31, 2014. The outstanding balance as of December 31, 2014 is \$13,377,200.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016.

**CAPITAL LEASE – ALLY FINANCIAL**

In March of 2013, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Silverado for \$18,501.80. The terms of the lease call for 3 annual payments of \$6,579.50 at an annual interest rate of 6.84%. The lease is scheduled to expire in March of 2015.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In March of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2014 Vactor Truck for \$352,801. The terms of the lease call for 12 quarterly payments of \$30,242.80 at an annual interest rate of 2.8%. The lease is scheduled to expire in March of 2017.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In May of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2013 Chevrolet Silverado for \$23,917. The terms of the lease call for 3 annual payments of \$8,309.51 at an annual interest rate of 2.1%. The lease is scheduled to expire in May of 2017.

A schedule of the future minimum lease rental payments as of December 31, 2014 is as follows:

| Year | 2012             | 2013                           | 2014             | 2014              | Interest        | Total             |
|------|------------------|--------------------------------|------------------|-------------------|-----------------|-------------------|
|      | PNC<br>Principal | Ally<br>Financial<br>Principal | PNC<br>Principal | PNC<br>Principal  |                 |                   |
| 2015 | \$ 32,349        | \$ 6,158                       | \$ 7,807         | \$ 117,076        | \$ 6,324        | \$ 169,714        |
| 2016 | 33,093           | -                              | 7,971            | 119,138           | 2,932           | 163,134           |
| 2017 | -                | -                              | 8,139            | 30,112            | 303             | 38,554            |
|      | <u>\$ 65,442</u> | <u>\$ 6,158</u>                | <u>\$ 23,917</u> | <u>\$ 266,326</u> | <u>\$ 9,559</u> | <u>\$ 371,402</u> |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 4 – LONG-TERM DEBT (Continued)**

**DRAVOSBURG SEWER SYSTEM AND TREATMENT PLANT**

On December 28, 2010, the Authority entered into agreement with the Borough of Dravosburg for the purchase of the Borough's sanitary sewer system and wastewater treatment plant in the amount of \$330,000 effective January 1, 2011. The terms of the agreement call for the advance payment of \$180,000 in 2011 with two subsequent payments of \$75,000 on January 1, 2012 and 2013 respectively. The final payment of \$75,000 was made to the Borough of Dravosburg in 2013.

The following represents the changes in the Authority's long-term debt obligations during 2014 and 2013:

|                | <b>Balance<br/>1/1/2014</b> | <b>Additions</b>           | <b>Deletions</b>             | <b>Balance<br/>12/31/2014</b> | <b>Due Within One<br/>Year</b> |
|----------------|-----------------------------|----------------------------|------------------------------|-------------------------------|--------------------------------|
| Bonds          | \$ 76,970,000               | \$ 6,410,000               | \$ (7,050,000)               | \$ 76,330,000                 | \$ 1,475,000                   |
| Notes          | 13,788,859                  | 1,132,811                  | (997,536)                    | 13,924,134                    | -                              |
| Capital Leases | 189,129                     | 376,718                    | (204,004)                    | 361,843                       | 117,529                        |
|                | <b><u>\$ 90,947,988</u></b> | <b><u>\$ 7,919,529</u></b> | <b><u>\$ (8,251,540)</u></b> | <b><u>\$ 90,615,977</u></b>   | <b><u>\$ 1,592,529</u></b>     |

|                | <b>Balance<br/>1/1/2013</b> | <b>Additions</b>            | <b>Deletions</b>              | <b>Balance<br/>12/31/2013</b> | <b>Due Within<br/>One Year</b> |
|----------------|-----------------------------|-----------------------------|-------------------------------|-------------------------------|--------------------------------|
| Bonds          | \$ 75,845,000               | \$ 13,715,000               | \$ (12,590,000)               | \$ 76,970,000                 | \$ 1,400,000                   |
| Note           | 19,548,795                  | 7,206,473                   | (12,966,409)                  | 13,788,859                    | -                              |
| Dravosburg     | 75,000                      | -                           | (75,000)                      | -                             | -                              |
| Capital Leases | 284,566                     | 18,502                      | (113,939)                     | 189,129                       | 117,529                        |
|                | <b><u>\$ 95,753,361</u></b> | <b><u>\$ 20,939,975</u></b> | <b><u>\$ (25,745,348)</u></b> | <b><u>\$ 90,947,988</u></b>   | <b><u>\$ 1,517,529</u></b>     |

**NOTE 5 – LEASE RENTAL EXPENSE**

On October 17, 2008, the Authority entered into a lease purchase agreement with the City of McKeesport, effective January 1, 2009, for the purchase of the City's sanitary collection system. In connection with that agreement, the Authority agreed to also pay, on a monthly basis, the outstanding balance due on two (2) loans the City has with the Pennsylvania Infrastructure Investment Authority (PENNVEST) related to improvements made to the collection system. The current monthly payments total \$26,019. During the calendar years 2014 and 2013, the Authority reimbursed the City \$312,491 and \$312,166 respectively for these PENNVEST loans. The remaining principal amounts due on these loans, per amortization schedules received from the City, total approximately \$3,756,026 at December 31, 2014.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 5 – LEASE RENTAL EXPENSE (Continued)**

The following represents the minimum lease rental payments remaining on this obligation as of December 31, 2014:

| <u>Year</u> | <u>AMOUNT</u>       |
|-------------|---------------------|
| 2015        | \$ 312,436          |
| 2016        | 312,436             |
| 2017        | 312,436             |
| 2018        | 312,436             |
| 2019        | 312,436             |
| 2020-2024   | 1,249,744           |
| 2025-2028   | 944,102             |
|             | <u>\$ 3,756,026</u> |

**NOTE 6 – ACCUMULATED COMPENSATED ABENCES**

In accordance with the terms of the collective bargaining agreement between the Authority and the Utility Workers Union of America, AFL-CIO, all regular full-time employees are entitled to receive payment for the value of all unused vacation days upon separation of service from the Authority at the employee's regular daily rate. This practice also applies to administrative personnel not covered under the terms of the bargaining agreement. As of December 31, 2014 and 2013, the value of accumulated compensated absences totaled \$148,297 and \$144,412 respectively.

**NOTE 7 – TRANSACTIONS WITH THE CITY OF MCKEESPORT**

The Authority entered into an agreement with the City of McKeesport dated December 29, 1949, as amended June 2, 1992, to provide sewage treatment services to the City and to pay the City \$30,000 annually for the maintenance cost of the sewers located within the City. In addition, during 2008, the Authority was responsible for paying the City a quarterly administrative fee, based on water usage, for the City to bill and collect certain fees from its customers within the City. Effective February 1, 2009, the Authority began billing and collecting these fees directly to the customers within the City of McKeesport. In addition, the Authority paid the City of McKeesport \$600,000 for the estimated value of collectible delinquent sewage fees outstanding. This amount, less delinquent collections in 2014 and 2013, is reflected in the statement of net position as 'Delinquent Sewage Service Receivable – City of McKeesport' totaling \$192,458.

**NOTE 8 - AUTHORITY PENSION PLAN**

The Authority established a single-employer defined benefit pension plan on March 1, 1964, as amended, to provide retirement benefits to eligible employees of the Authority.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

Plan membership as of January 1, 2013 was comprised of:

|                                                                         |    |
|-------------------------------------------------------------------------|----|
| Active employees                                                        | 51 |
| Retirees and beneficiaries currently receiving benefits                 | 16 |
| Terminated employees entitled to benefits<br>but not yet receiving them | 1  |
| Total                                                                   | 68 |

A summary of the plan's provisions is as follows:

- PARTICIPANTS** - All employees of the Authority who customarily work at least 20 hours per week and at least 5 months per year.
- ELIGIBILITY** - All participants are eligible for retirement benefits provided that they have attained the age of 62 and have completed 10 years of continuous service. Participants are eligible for early retirement at age 55 with 20 years of continuous service.
- VESTING** - Vesting occurs on a sliding scale with full vesting occurring after 20 years of service.
- BENEFITS** - 50% of Average Compensation multiplied by participants short service percentage (effective 1/1/2008).
- DEATH BENEFIT** - The plan provides for beneficiary benefits named by the participant under options as detailed in the retirement plan.
- FUNDING** - Member contributions equal 3.5% (3% for 2013) of compensation in 2014 and are slated to rise to 4% in 2015. Members contributed \$74,621 and \$72,247 to the plan during 2014 and 2013 respectively. Pension expense of the Authority totaled \$352,176 for 2014 and \$341,096 for 2013.

The investment income of the plan was used to fund administrative costs. There are no long-term contracts for contributions as of December 31, 2014 and 2013. In addition, there are no assets legally reserved for purposes other than the payment of plan member benefits. The plan does not issue a stand-alone report.

The significant assumptions employed in the most recent actuarial valuation (dated 1/1/2013) to determine funding included the use of an 8% interest rate and a salary projection of 4.5%. The pension plan uses the Entry Age Normal Actuarial Cost Method. Net assets available for benefits as of January 1, 2013 were \$4,737,232.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

A schedule of the Authority's annual required contributions (ARC) to the plan is as follows:

| Year | ARC        | % Contributed |
|------|------------|---------------|
| 2014 | \$ 352,176 | 100%          |
| 2013 | 341,096    | 100%          |
| 2012 | 309,526    | 100%          |
| 2011 | 220,395    | 145%          |
| 2010 | 40,052     | 100%          |
| 2009 | 17,202     | 100%          |
| 2008 | 7,166      | 100%          |
| 2007 | 83,326     | 100%          |
| 2006 | 98,910     | 100%          |
| 2005 | 92,823     | 100%          |

Historical trend information, designed to provide information about the plan's progress made accumulating sufficient assets to pay benefits when due, is as follows:

| (A)                            | (B)                             | (B-A)<br>(UAAL)                   | (A/B)                                         | (C)             | (B-A)/C            |                                         |
|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------------------|-----------------|--------------------|-----------------------------------------|
| ACTUARIAL<br>VALUATION<br>DATE | ACTUARIAL<br>VALUE OF<br>ASSETS | ACTUARIAL<br>ACCRUED<br>LIABILITY | UNFUNDED<br>ACTUARIAL<br>ACCRUED<br>LIABILITY | FUNDED<br>RATIO | COVERED<br>PAYROLL | UAAL AS A<br>% OF<br>COVERED<br>PAYROLL |
| 1/1/05                         | \$ 4,264,511                    | \$ 4,049,779                      | \$ (214,732)                                  | 105%            | \$ 1,065,402       | -20%                                    |
| 1/1/07                         | 5,105,407                       | 4,262,176                         | (843,231)                                     | 120%            | 1,063,399          | -79%                                    |
| 1/1/09                         | 4,528,958                       | 5,065,447                         | 536,489                                       | 89%             | 1,312,812          | 41%                                     |
| 1/1/11                         | 4,331,884                       | 5,578,758                         | 1,246,874                                     | 78%             | 1,804,894          | 69%                                     |
| 1/1/13                         | 4,469,879                       | 6,843,691                         | 2,373,812                                     | 65%             | 2,551,011          | 93%                                     |

The following shows the components of the Authority's net pension obligation (NPO) for the latest three calendar years:

|                                            | 2010               | 2011                | 2012                |
|--------------------------------------------|--------------------|---------------------|---------------------|
| Annual required contribution               | \$ 40,052          | \$ 220,395          | \$ 309,526          |
| Interest on net pension obligation         | (1,764)            | (1,699)             | (9,538)             |
| Adjustment to annual required contribution | 2,575              | 2,266               | 12,415              |
| Annual pension cost (expense)              | \$ 40,863          | \$ 220,962          | \$ 312,403          |
| Contributions made                         | 40,052             | 318,960             | 309,526             |
| (Decrease) in net pension obligation       | \$ 811             | \$ (97,998)         | \$ 2,877            |
| Net Pension Obligation - January 1         | (22,044)           | (21,233)            | (119,231)           |
| Net Pension Obligation - December 31       | <u>\$ (21,233)</u> | <u>\$ (119,231)</u> | <u>\$ (116,354)</u> |

The above calculation utilized an assumed interest rate of 8% for 2010-2012. The amortization period was 15, 18, and 19 years respectively, and the amortization factor was 8.5595, 9.3719, and 9.6036 respectively.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

The Municipal Authority of the City of McKeesport provides post-employment medical benefits to eligible full-time non-bargaining employees and members covered under the Collective Bargaining Agreement between the Authority and the Utility Workers Union of America (AFL-CIO). Healthcare coverage that an employee has at the time of retirement will be paid at retirement, but no earlier than age 62. The healthcare coverage will cease at the employees age of 65. As of December 31, 2014 and 2013, two union retirees were receiving post-retirement health care benefits from the Authority. The Authority finances these benefits on a pay-as-you-go basis. Amounts paid for these benefits for the years ended December 31, 2014 and 2013 were deemed immaterial.

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, 'Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions'. This statement provides the accounting and reporting requirements for benefit plans, as well as, requires that public sector employers accrue the cost of any postretirement healthcare or similar benefits (OPEB) they may offer to employees. Under GASB Statement No. 45, retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan.

The Annual OPEB and Net Pension Obligation for the years ending December 31, 2014 and December 31, 2013, and certain other required supplementary information as of January 1, 2012 is as follows:

|                                            | <u>2014</u>       | <u>2013</u>       |
|--------------------------------------------|-------------------|-------------------|
| Normal Cost                                | \$ 195,464        | \$ 201,638        |
| Amortization of Unfunded Accrued Liability | -                 | -                 |
| Annual Required Contribution (ARC)         | \$ 195,464        | \$ 201,638        |
| Interest on Net OPEB Obligation            | -                 | -                 |
| Adjustments to ARC                         | -                 | -                 |
| Annual OPEB Cost                           | \$ 195,464        | \$ 201,638        |
| Contributions Made (Estimated)             | (718)             | (843)             |
| Estimated Increase in Net OPEB Obligation  | \$ 194,746        | \$ 200,795        |
| Net OPEB Obligation - January 1, 2014      | 407,849           | 207,054           |
| Net OPEB Obligation - December 31, 2014    | <u>\$ 602,595</u> | <u>\$ 407,849</u> |

**FUNDED STATUS AND FUNDING PROGRESS**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**FUNDED STATUS AND FUNDING PROGRESS (Continued)**

The schedule of funding progress, as shown below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| ACTUARIAL<br>VALUATION<br>DATE | (A)<br>ACTUARIAL<br>VALUE OF<br>ASSETS | (B)<br>ACTUARIAL<br>ACCRUED<br>LIABILITY | (B-A)<br>(UAAL)<br>UNFUNDED<br>ACTUARIAL<br>ACCRUED<br>LIABILITY | (A/B)<br>FUNDED<br>RATIO | (C)<br>COVERED<br>PAYROLL | (B-A)/C<br>UAAL AS A<br>% OF<br>COVERED<br>PAYROLL |
|--------------------------------|----------------------------------------|------------------------------------------|------------------------------------------------------------------|--------------------------|---------------------------|----------------------------------------------------|
| 1/1/12                         | \$ -                                   | \$ 931,894                               | \$ 931,894                                                       | 0%                       | \$ 2,028,488              | 45.90%                                             |

**ACTUARIAL METHODS AND ASSUMPTIONS**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The January 1, 2012 actuarial valuation reports utilized the Entry Age Normal Cost Actuarial Cost Method. The UAAL is being amortized based on a level dollar, 20 year closed period resulting in an amortization factor of 9.6036. The Discount Rate used was 4.0%. Retiree contributions are assumed to increase at the same rate as the health care cost trend rate which is 9% for 2013, decreasing by 1% per year to 7% in 2015.

A detail description of the provisions of the post-employment benefit plan is available in the GASB 45 actuarial valuation report as of January 1, 2012. The Net OPEB liability of \$602,595 is reflected as part of Noncurrent Liabilities in the financial statement of net position (Exhibit A).

**NOTE 10 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years. The risk of loss retained by the Authority is limited to deductibles under each of the policies which can range between \$2,500 and \$10,000 per item.

For its workers compensation insurance coverage, the Authority participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), which is a public entity risk pool comprised of approximately 200 governmental organizations. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals from the Pennsylvania Department of Labor and Industry. All Trust participants may be subject to a supplemental assessment/dividend based on overall experience of the participants.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 10 - RISK MANAGEMENT (Continued)**

Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers Compensation Act and Occupational Disease Act of each and every participant of the Trust. The Trust purchases excess insurance coverage within statutory limits. The retention for this coverage is \$750,000 per occurrence. Political subdivisions joining the Trust must remain members for a minimum of four years. Members may withdraw from the Trust after that time by giving ninety days notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdraw, the participant is responsible for their share of assessments but has no claim on any assets of the Trust.

**NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES**

**LEGAL MATTERS**

The Authority, on occasion, can be party to various legal actions arising from normal business operations, the aggregate effect of which, in management's opinion, would not be material to the financial position of the Authority as of December 31, 2014 and 2013.

**PENNSYLVANIA SEWAGE FACILITIES ACT (ACT 537)**

Act 537 requires municipalities in Pennsylvania to develop and implement official sewage plans that address existing sewage disposal needs, account for future land development and provide for future sewage disposal needs. During 2009 and 2010, the Authority worked with the PA Department of Environmental Protection to develop its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. In 2011 fifteen separate contracts were awarded for construction projects related to these Plans. These Plans require significant new treatment processes, pumping stations and interceptor lines with an associated capital cost of approximately \$54 million.

To finance the project, the Authority has chosen to issue a series of bonds (see Note 4) at a rate of one per year, thereby enabling the Authority to step the necessary sewage rate increases over the next four to five years as opposed to a significant rate increase in any one year. In 2011 Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest. The award was issued only for Contract 2010-1 and 2010-2 which covers the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. All unused funds will be retained by PENNVEST. The other 13 contracts will be financed by the previously mentioned bond issues.

**U.S. ARMY CORPS OF ENGINEERS (COE)**

The U.S. Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result, the federal government is funding the relocation of most of the CSO structures. Construction for Phase 1 of the project was completed in 2007. Phase II began in the second half of 2009 and was completed in the first half of 2011. The Evans Avenue Overflow Line is the only remaining line that needs to be raised, however, the COE do not have any funds allocated for this line at this time. The Authority now has new outfall structures that will greatly reduce the amount of river water that flows back through the pipes and into the sewer lines. This, in return, will reduce the costs associated with treating unnecessary water.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 12 – OBLIGATIONS IMPOSED UPON THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT BY CITY OF MCKEESPORT ORDINANCE NO. 12-20, ENACTED OCTOBER 3, 2012, WITH AN EFFECTIVE DATE OF OCTOBER 6, 2012**

Pursuant to City of McKeesport Ordinance No. 12-20, enacted into law by the City of McKeesport on October 3, 2012, with an effective date of October 6, 2012, The Municipal Authority of the City of McKeesport is required to pay the City of McKeesport an Intergovernmental Agreement Fee in lieu of the normal property and revenue assessments and to compensate the City of McKeesport for all services and increased costs the location and expansion of the Authority's treatment plant have caused at a rate of \$1,000,000 per year and with The Municipal Authority of the City of McKeesport to enter into and execute a Cooperation Agreement with the City of McKeesport according to the terms approved by the Solicitor and Mayor of the City of McKeesport and specifically incorporating such Intergovernmental Agreement Fee. Such Cooperation Agreement was thereafter prepared by the City of McKeesport; dated December 12, 2012; and entered into and executed by The Municipal Authority of the City of McKeesport. Such Cooperation Agreement requires The Municipal Authority of the City of McKeesport to pay on or before December 25<sup>th</sup> of each year a \$1,000,000 Intergovernmental Agreement Fee for the initial year and with such Authority payment to be increased by 1% for each year thereafter during the term of the Cooperation Agreement. In addition, the payment of this fee is specifically subordinated each year to the payment of all debt service obligations. Services include, but are not limited to: Drafting services for mapping system, Permits for sewer taps and relays, Engineering services, Procurement of right-of-ways and easements, Surveying services, Use of specialized equipment owned by City, Police, Fire, and Ambulance services, Electrical department services, and many other services rendered as stated in Agreement. The Authority paid the City of McKeesport an Intergovernmental Agreement Fee of \$1,020,100 and \$1,010,000 respectively for calendar years ended December 31, 2014 and 2013.

**NOTE 13 – PENDING GASB PRONOUNCEMENTS**

In June 2012, GASB issued Statement No. 68, 'Accounting and Financial Reporting for Pensions', which amends GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

In November of 2013, GASB issued Statement No. 71, 'Pension Transition for Contributions Made Subsequent to Measurement Date – an Amendment to GASB 68'. The primary objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68.

The provisions of this Statement are effective for the Authority's December 31, 2015 financial statements. The effects of the implementation of GASB Statements Nos. 68 and 71 on the Municipal Authority of the City of McKeesport's financial statements have not yet been determined.

**NOTE 14 – SUBSEQUENT EVENTS**

Management has determined that there are no events subsequent to December 31, 2014 through the date of the 'Independent Auditor's Report' date, which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

***SUPPLEMENTARY  
INFORMATION***

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF DETAIL OPERATING EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31.**

|                                                | <b>2014</b>         | <b>2013</b>         |
|------------------------------------------------|---------------------|---------------------|
| <b><u>PERSONNEL COSTS</u></b>                  |                     |                     |
| Plant Salaries                                 | \$ 1,898,677        | \$ 2,291,821        |
| Administrative Salaries                        | 692,021             | 331,625             |
| Payroll Taxes                                  | 198,702             | 199,933             |
| Pension                                        | 352,176             | 341,096             |
| Employee Benefits                              | 882,403             | 897,414             |
| <b>TOTAL PERSONNEL</b>                         | <b>\$ 4,023,979</b> | <b>\$ 4,061,889</b> |
| <b><u>PROFESSIONAL SERVICES</u></b>            |                     |                     |
| Engineering (Net of COE Reimbursements)        | \$ 25,510           | \$ 57,417           |
| Audit                                          | 6,500               | 8,200               |
| Legal                                          | 144,051             | 185,946             |
| Accounting                                     | 4,800               | 4,800               |
| Pension Services                               | 31,370              | 37,529              |
| Payroll Services                               | 7,230               | 7,016               |
| Miscellaneous Professional Services            | 36,031              | 7,650               |
| <b>TOTAL PROFESSIONAL SERVICES</b>             | <b>\$ 255,492</b>   | <b>\$ 308,558</b>   |
| <b><u>SEWAGE PLANT COSTS</u></b>               |                     |                     |
| Utilities                                      | \$ 542,529          | \$ 423,732          |
| Repair and Maintenance                         | 226,992             | 334,066             |
| Lease Rental Expense                           | 312,491             | 312,166             |
| Chemicals                                      | 67,601              | 66,369              |
| Lab Supplies and Analysis                      | 48,900              | 47,522              |
| Safety Program                                 | 11,598              | 19,238              |
| Vehicle Expense                                | 87,769              | 95,170              |
| Sludge Hauling                                 | 250,830             | 264,866             |
| Computers                                      | 45,401              | 26,019              |
| Uniforms                                       | 9,767               | 10,569              |
| CSO Study                                      | 73,480              | 114,572             |
| Duquesne/Dravosburg Expenses                   | -                   | 113,649             |
| Miscellaneous                                  | 9,909               | 33,525              |
| <b>TOTAL SEWAGE PLANT COSTS</b>                | <b>\$ 1,687,267</b> | <b>\$ 1,861,463</b> |
| <b><u>OTHER GENERAL AND ADMINISTRATIVE</u></b> |                     |                     |
| Insurance                                      | \$ 115,143          | \$ 121,918          |
| Office Supplies                                | 3,396               | 4,245               |
| Telephone                                      | 33,722              | 64,148              |
| Billing and Collecting                         | 117,813             | 76,745              |
| Travel and Education                           | 14,061              | 21,059              |
| Advertising                                    | 184                 | 2,773               |
| Bond and Asset Management Fees                 | 39,341              | 45,700              |
| Permits/Dues/Fees                              | 16,430              | 14,875              |
| Miscellaneous                                  | 35,356              | 47,416              |
| <b>TOTAL OTHER GENERAL AND ADMINISTRATIVE</b>  | <b>\$ 375,446</b>   | <b>\$ 398,879</b>   |
| <b><u>BAD DEBT EXPENSE</u></b>                 | <b>\$ 287,214</b>   | <b>\$ -</b>         |
| <b><u>DEPRECIATION</u></b>                     | <b>\$ 1,323,547</b> | <b>\$ 1,317,124</b> |
| <b>TOTAL OPERATING EXPENSES</b>                | <b>\$ 7,952,945</b> | <b>\$ 7,947,913</b> |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF MCKEESPORT**

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FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF MCKEESPORT**

MCKEESPORT, PENNSYLVANIA

FINANCIAL STATEMENTS

WITH REPORT BY

CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEARS ENDED  
DECEMBER 31, 2015 AND 2014**

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**MCKEESPORT, PENNSYLVANIA**

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# **Mark C. Turnley**

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**To the Board of Directors  
Municipal Authority of the City of McKeesport**

## Independent Auditor's Report

### **Report on Financial Statements**

I have audited the accompanying financial statements of the Municipal Authority of the City of McKeesport as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Municipal Authority of the City of McKeesport's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Authority of the City of McKeesport as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

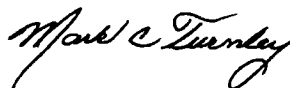
### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iii-xvi and the defined benefit pension plan information on pages 29-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

### ***Other Information***

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Municipal Authority of the City of McKeesport's basic financial statements. The supplementary information (statement of detail operating expenses) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information (statement of detail operating expenses) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information (statement of detail operating expenses) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Mark C. Turnley, CPA

June 29, 2016  
New Brighton, Pennsylvania

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2015 and 2014

This section of the Authority's annual financial report represents our discussion and analysis of the Authority's financial performance during the years ended December 31, 2015 and 2014. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. We encourage readers to consider the information presented here in conjunction with the information provided in the Authority's financial statements.

**OPERATING AGREEMENTS**

The Authority owns and operates three wastewater treatment facilities pursuant to Agreements with each of the twelve communities it serves. The Authority has Agreements to provide wastewater treatment services with the City of McKeesport, the City of Duquesne, the Borough of Liberty, the Borough of Port Vue, the Borough of East McKeesport, the Township of Elizabeth, the Borough of Glassport, the Borough of White Oak, the Borough of Versailles, the Borough of Lincoln, the Borough of Dravosburg, and the Township of North Versailles. The Authority's Board of Directors establishes rates which are designed to recover the cost of providing services. The rates are based upon the gallons of water used by the communities. The Authority bills the municipalities on a quarterly basis for services provided to the communities' residents at the established rate. The municipalities are responsible for setting a rate for customers within their municipalities and for billing and collecting from those customers. The Authority began conducting billing services for Versailles Borough in March of 2009 in addition to the systems that it owns; McKeesport, Duquesne & Dravosburg.

The City of McKeesport sold its Collection System to the Authority effective January 1, 2009 under a lease purchase agreement. The acquisition of the sewer system included more than 550,000 feet of sewer lines ranging in size from 6" to 42" and two pumping stations. Since that date Authority personnel have performed routine maintenance and repairs to the system. On November 8, 2010 the City of Duquesne sold its wastewater treatment plant and collection system to the Authority for \$3.8 million. The acquisition added an additional 163,700 feet of sewer lines and 557 manholes to the Authority's care. A combined sewer overflow (CSO) long term control plan has been developed and is waiting on DEP approval. In January of 2011 the Authority purchased the Dravosburg Wastewater Treatment Facility along with its corresponding collection system from the Borough of Dravosburg for \$330,000. The acquisition added an additional 47,500 feet of sewer lines and one pump station. The CSO Long Term Control Plan has been developed, the initial phase was recently approved by the DEP and is now awaiting the final approval.

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include only those of the Authority which is a component unit of the City of McKeesport, Pennsylvania. The financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. They are designed to provide a broad overview of the Authority's finances, in a manner similar to a private-sector business. All of the Authority's activities are reported in the statements except for activities associated with the pension fund because those funds are not available to support the Authority's own programs.

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference of the two reported as Net Position. Net Position is reported as one of three categories: net investment in capital assets; restricted; or unrestricted.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's Net Position changed during the year. All of the changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected rates and earned but unused vacation leave).

These two financial statements report the Authority's Net Position and the changes in the Net Position. Net Position, which represents the difference between assets and liabilities, are one measure of the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's Net Position may serve as a useful indicator of whether its financial position is improving or deteriorating.

Notes to the financial statements provide additional information that is essential to a full understanding of the information proved in these financial statements. The financial statements and accompanying notes can be found in the financial section of this report.

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**FINANCIAL HIGHLIGHTS**

In 2014 the Authority had a minimal increase of ten cents to their sewage processing rate to \$7.95/1,000 gallons to cover increased operating costs, inflation, etc. Then again in 2015, the Authority had another minimal increase of ten cents, which brings the sewage processing rate to \$8.05/1,000gallons. No major rate increases are expected in the near future, as the Authority had implemented such rate increases over the past few years to compensate for the recent construction projects.

Bids for the Act 537 Plan Expansion Project were opened on March 7, 2011 and fifteen (15) contracts were awarded on May 26, 2011.

The Authority was awarded PennVest funding on April 20, 2011. The funding consisted of \$17,239,375 in the form of a grant and an equal amount in the form of a one (1.0) percent thirty (30) year loan. These funds are to apply only to the two contracts pertaining to the construction relating to the upgrade of the wastewater treatment facility itself. It cannot be used for the upgrades to the pump stations or lines. The cost of these other contracts not covered by Pennvest funds will be funded by the bond revenues. The project is 99% complete and is just awaiting project close out and final payments.

The Tapping Fee (Capacity fee) remained unchanged in 2015 at a rate of \$1,750 per Equivalent Dwelling Unit ("EDU"). An EDU, equivalent dwelling unit, is the average amount of wastewater that each household in the service area discharges each day. The Authority calculates an EDU to be 236 gallons per day. During 2014, there were forty six (46) new commercial taps purchased within the Authority's service area, and during 2015 there were eight (8) new commercial taps purchased within the Authority's service area, this varies from year to year. The balance of cash accumulated from tapping fees (The Tapping Fee Account), at December 31, 2014 was \$430,758 and at December 31, 2015 was \$43,482. The reason for the significant decrease in cash balance from 2014 to 2015 was to fund general operating costs throughout the year as provided by terms in the trust indenture.

On December 31, 2015, total assets and deferred outflow of resources were \$87,028,427 and total liabilities were \$95,110,514 yielding a net position of -\$8,082,087. General operations resulted in an increase in total Net Position of \$665,680 for calendar year 2015 before the effects of prior period adjustments as discussed in Note 13 to the financial statements.

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**FINANCIAL HIGHLIGHTS (Continued)**

For the year 2015, 4.693 billion gallons of wastewater were treated at the Authority's three (3) wastewater treatment facilities. Approximately 1.124 billion gallons of water were consumed in 2015 by the Authority's customers and paid for by their user fees. By comparison, 24% of the wastewater treated was billable down from 28.5% in 2014. The remaining 3.569 billion gallons of wastewater, up from 2.916 billion gallons from 2014, entered the system from rainwater, groundwater, streams and rivers, water line breaks, firefighting efforts, etc. The 2015 annual rainfall increased from the previous year; 36.78 inches in 2014 to 41.14 inches in 2015.

Total Operating Revenues were \$13,047,844, a decrease of \$266,185, or 2% over 2014.

Operating Expenses were \$9,236,165, an increase of \$1,283,221 over 2014. The most significant increase was depreciation expense increasing by \$1,045,390 (from \$1,323,547 in 2014 to \$2,368,937 in 2015). Other significant increases included personnel costs, professional services, and sewage plant costs.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2015 and 2014

**FINANCIAL ANALYSIS**

The following condensed financial statements and other selected information serve as financial data and indicators to help the Authority manage, monitor, and plan.

**Condensed Statement of Net Position**

|   | <u>12/31/2015</u>            | <u>12/31/2014</u>            | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|---|------------------------------|------------------------------|--------------------------------------|
| Current & Restricted Assets                                     | \$ 7,627,927                 | \$ 9,835,010                 | \$ (2,207,083)                       |
| Capital Assets - net of depreciation                            | 73,813,794                   | 93,963,753                   | (20,149,959)                         |
| Other Assets  | 3,878,601                    | 2,758,051                    | 1,120,550                            |
| Deferred Outflow of Resources                                   | 1,708,105                    | 1,512,821                    | 195,284                              |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOW<br/>OF RESOURCES</b>     | <b><u>\$ 87,028,427</u></b>  | <b><u>\$ 108,069,635</u></b> | <b><u>\$ (21,041,208)</u></b>        |
| Current Liabilities   | \$ 3,559,724                 | \$ 3,517,779                 | \$ 41,945                            |
| Long-term Liabilities   | 91,437,745                   | 89,108,922                   | 2,328,823                            |
| Deferred Inflow of Resources                                    | 113,045                      | -                            | 113,045                              |
| <b>TOTAL LIABILITIES &amp; DEFERRED INFLOW<br/>OF RESOURCES</b> | <b><u>\$ 95,110,514</u></b>  | <b><u>\$ 92,626,701</u></b>  | <b><u>\$ 2,483,813</u></b>           |
| Net Investment in Capital Assets                                | \$ (14,730,364)              | \$ 6,819,924                 | \$ (21,550,288)                      |
| Restricted for Debt Service                                     | 5,576,557                    | 5,569,004                    | 7,553                                |
| Unrestricted  | 1,071,720                    | 3,054,006                    | (1,982,286)                          |
| <b>TOTAL NET POSITION</b>                                       | <b><u>\$ (8,082,087)</u></b> | <b><u>\$ 15,442,934</u></b>  | <b><u>\$ (23,525,021)</u></b>        |

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

|                               | <u>2015</u>                  | <u>2014</u>                  | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|-------------------------------|------------------------------|------------------------------|--------------------------------------|
| Operating Revenues            | \$ 13,047,844                | \$ 13,314,029                | \$ (266,185)                         |
| Operating Expenses            | 9,236,165                    | 7,952,944                    | 1,283,221                            |
| <b>NET OPERATING INCOME</b>   | <b><u>\$ 3,811,679</u></b>   | <b><u>\$ 5,361,085</u></b>   | <b><u>\$ (1,549,406)</u></b>         |
| Non-Operating Revenues        | \$ 1,234,040                 | \$ 255,237                   | \$ 978,803                           |
| Non-Operating Expenses        | (4,380,039)                  | (4,813,057)                  | 433,018                              |
| <b>NET NON-OPERATING</b>      | <b><u>\$ (3,145,999)</u></b> | <b><u>\$ (4,557,820)</u></b> | <b><u>\$ 1,411,821</u></b>           |
| <b>CHANGE IN NET POSITION</b> | <b><u>\$ 665,680</u></b>     | <b><u>\$ 803,265</u></b>     | <b><u>\$ (137,585)</u></b>           |

**THE MUNICIPAL AUTHORITY OF  
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**FINANCIAL ANALYSIS (Continued)**

Overall, the Authority's financial condition remained strong in 2015. Most of the ten service communities are up to date with their payments with the exception that they lag one quarter behind due to the length of time it takes to get their consumption numbers from the water authority. The addition of the McKeesport Collection System in 2009, the Duquesne Wastewater Treatment Plant and System in 2010, and the Borough of Dravosburg Wastewater Treatment Plant and System in 2011, as well as, the expressed interest of at least three of the Authority's service communities to sell their systems to the Authority, one of which has been in negotiations to sell, has greatly expanded the scope of the Authority's influence and responsibilities and bodes well for the future success of the Authority. Grant proceeds of \$211,828 were received in 2014 and \$753,293 received in 2015 from PENNVEST for the wastewater treatment facility project. The Authority also received \$468,438 in grant proceeds from FEMA/PEMA for damages incurred to the sewage systems in 2013.

The following table shows the Authority's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues. The effect of the addition of the 'Intergovernmental Agreement Fee' starting in 2012 is reflected in the decrease in operating cash as a percentage of operating revenues.

|  | 2015         | 2014          | Variance   |
|--|--------------|---------------|------------|
| Total operating revenues                             | \$13,047,844 | \$ 13,314,029 | -\$266,185 |
| Net cash provided by operations                      | \$6,145,215  | \$6,718,419   | -573,204   |
| Operating cash as a percentage of operating revenues | 47.1%        | 50.5%         | -3.4%      |



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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

On December 31, 2015, the Authority had \$73,813,794 invested in capital assets, including land, infrastructure, buildings, plant and office machinery and equipment, and vehicles net of depreciation. This amount represents a net decrease (including additions, deletions and depreciation) of \$20,149,959, or approximately 21.4% from last year.

The Authority had approximately \$1,514,377 in capital additions during the 2015 year, mainly comprised of costs incurred for the Act 537 system improvements and upgrades including WWTP expansion, pump station construction, sanitary sewer construction and force main construction.

A summary of the Authority's capital assets net of accumulated depreciation for the past two years is as follows:

|                              | <u>2015</u>          | <u>2014</u>          | <b>INCREASE<br/>&lt;DECREASE&gt;</b> |
|------------------------------|----------------------|----------------------|--------------------------------------|
| Land                         | \$ 61,132            | \$ 61,132            | \$ -                                 |
| Infrastructure               | 33,487,620           | 33,502,793           | (15,173)                             |
| Buildings                    | 33,723,580           | 10,165,226           | 23,558,354                           |
| Plant Machinery & Equipment  | 22,627,410           | 7,955,983            | 14,671,427                           |
| Office Machinery & Equipment | 126,615              | 143,791              | (17,176)                             |
| Vehicles and Equipment       | 1,409,440            | 1,354,294            | 55,146                               |
|                              | <u>\$ 91,435,797</u> | <u>\$ 53,183,219</u> | <u>\$ 38,252,578</u>                 |
| Accumulated Depreciation     | <u>(17,622,003)</u>  | <u>(17,485,167)</u>  | <u>(136,836)</u>                     |
|                              | <u>\$ 73,813,794</u> | <u>\$ 35,698,052</u> | <u>\$ 38,115,742</u>                 |
| Construction in Progress     | -                    | 58,265,701           | (58,265,701)                         |
|                              | <u>\$ 73,813,794</u> | <u>\$ 93,963,753</u> | <u>\$ (20,149,959)</u>               |

In calendar year 2015, the Authority contracted for and completed an updated appraisal of the acquisition cost of all of its plant assets as a result of significant plant expansion and renovation over the past 7 years. As a result of this updated appraisal, asset categories as shown on the statement of net position, in some instances, changed significantly from calendar year 2014 to calendar year 2015 as a result of capitalizing prior year construction in progress. This updated appraisal determined that certain prior year assets (structures and equipment) had been completely renovated or replaced and accordingly had to be removed from the Authority's cost value for its property, plant and equipment.

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**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**CAPITAL ASSETS (Continued)**

The corresponding reduction is reflected as part of the Authority's prior period adjustments as stated on the statement of revenues, expenses and changes in net position. Depreciation expense increased significantly in calendar year 2015 as a result of the additional capitalization on assets formerly shown as construction in progress.

**DEBT ADMINISTRATION**

As of December 31, 2015, the Authority had total long-term debt outstanding of \$62,578,823. The Authority's debt obligations are comprised of 1) seven sewer revenue bonds, 2) one sewer revenue note, 3) three PENNVEST notes, 4) one note agreement with First Commonwealth Bank, and 5) three capital lease obligations with PNC Equipment Finance.

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 in the amount of \$10,000,000 for the purpose of 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2015 is \$9,490,000.

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds – Series of 2013 were issued for the purpose of advance refunding a portion (\$11,215,000) of Sewer Revenue Bonds – Series of 2010, leaving a balance at December 31, 2015 of \$13,760,000. Interest rates range between 2.5 and 5.0% and the bonds are scheduled to mature on December 15, 2041.

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**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**DEBT ADMINISTRATION: (Continued)**

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds – Series of 2013 were issued for the purpose of advance refunding a portion (\$500,000) of Sewer Revenue Bonds – Series of 2011, leaving a balance at December 31, 2015 of \$21,585,000. Interest rates range between 2.0 and 4.25% and the bonds are scheduled to mature on December 15, 2030.

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036. The remaining principal balance on the bond issue as of December 31, 2015 is \$5,365,000.

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033. The remaining principal balance on the bond issue as of December 31, 2015 is \$4,635,000.

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**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**DEBT ADMINISTRATION: (Continued)**

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds - Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041. The remaining principal balance on the bond issue as of December 31, 2015 is \$13,715,000.

In January of 2014, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2014 under the terms of a Trust Indenture dated February 19, 2014, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$6,410,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds - Series of 2008, 2) fund construction and/or acquisition of capital additions, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at interest rates ranging between 1.0% and 4.65%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2015 is \$6,305,000.

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. As of December 31, 2015, the outstanding balance on this Note obligation is \$148,962.

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**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**DEBT ADMINISTRATION: (Continued)**

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$15,015,205 on the loan as of December 31, 2015. The terms of the note agreement call for the current monthly payment of \$55,448.63 at an interest rate of 1%. The note is scheduled to mature in November of 2038. As of December 31, 2015, the outstanding balance on this loan obligation is \$13,599,088.

In November of 2015, the Pennsylvania Infrastructure Investment Authority (PENNVEST) entered into an assumption agreement with the Municipal Authority of the City of McKeesport to assume the outstanding balance of an existing PENNVEST loan held by the City of McKeesport in the amount of \$2,051,467.42. The terms of the note agreement call for the monthly payment of \$17,780.19 at an interest rate of 1.69% scheduled to mature on May 1, 2026. The note is secured by the gross receipts of the Authority and guaranteed by the City of McKeesport. As of December 31, 2015, the outstanding balance on this loan obligation is \$2,036,576.

In November of 2015, the Pennsylvania Infrastructure Investment Authority (PENNVEST) entered into an assumption agreement with the Municipal Authority of the City of McKeesport to assume the outstanding balance of an existing PENNVEST loan held by the City of McKeesport in the amount of \$1,132,795.66. The terms of the note agreement call for the monthly payment of \$8,223.11 at an interest rate of 1.065% scheduled to mature on February 1, 2028. The note is secured by the gross receipts of the Authority and guaranteed by the City of McKeesport. As of December 31, 2015, the outstanding balance on this loan obligation is \$1,125,578.

In September of 2015, the Authority entered into a promissory note agreement with First Commonwealth Bank for the purchase of a 2015 Chevrolet Cutaway for \$21,650. The terms of the note call for 2 annual payments of \$11,312.28 at an annual interest rate of 2.94%. The remaining principal balance on the lease as of December 31, 2015 is \$21,650 and the lease is scheduled to expire in September of 2017.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2015 and 2014

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**DEBT ADMINISTRATION: (Continued)**

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016. The remaining principal balance on the lease as of December 31, 2015 is \$33,093.

In March of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2014 Vactor Truck for \$352,801. The terms of the lease call for 12 quarterly payments of \$30,242.80 at an annual interest rate of 2.8%. The lease is scheduled to expire in March of 2017. The remaining balance on the lease as of December 31, 2015 is \$149,249.

In May of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2013 Chevrolet Silverado for \$23,917. The terms of the lease call for 3 annual payments of \$8,309.51 at an annual interest rate of 2.1%. The lease is scheduled to expire in May of 2017. The remaining balance on the lease as of December 31, 2015 is \$16,110.

The Authority is scheduled to make principal and interest payments on their total debt of approximately \$6,257,823 during the 2016 calendar year. The principal and interest payments to be paid in 2015 do not include Sewer Revenue Note, Series of 2011.

**SUBSEQUENT EVENT**

The Authority has had one major subsequent event since December 31, 2015 that would affect the financial statements. The Authority purchased the Port Vue Collection system in April of 2016 for \$1,400,000 with an upfront payment of \$300,000 due at closing and ten annual payments of \$110,000 through 2026. The Authority will now be responsible for billing the Port Vue customers and collecting the payments directly, and also to maintain the collection system, which includes both sanitary and storm lines and one pump station.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2015 and 2014

**GENERAL TRENDS AND SIGNIFICANT EVENTS**

Population in the Authority's service area continues to remain fairly constant, with a decrease in the population in the City of McKeesport and the City of Duquesne being offset by increases in other communities such as White Oak Borough, North Versailles Township and Elizabeth Township. It has been estimated that the population in the service area will increase at a rate of 90 persons per year for the next five years.

Throughout the year the Authority continued to work with the PA Department of Environmental Protection to implement its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. These plans were approved in July of 2007. The project design work was completed and submitted to the PA Department of Environmental Protection for review in July of 2009 and approved in July of 2010. Fifteen construction projects were put out for bid in February of 2011 and awarded in May. The project involves significant new treatment processes, pumping stations & interceptor lines with an associated capital cost of approximately sixty-two (62.5) million dollars.

In order to prevent a huge increase in the sewer rates the Authority has chosen to issue a series of bonds at a rate of one per year. By doing this the Authority has been able to step the necessary rate increases over a period of several years. To do this, a ten (10) million dollar bond was issued in 2009 and the rates were increased by \$0.74/1000 gallons, or 20.5%, a fourteen (14) million dollar bond was issued in 2010 which increased the rates \$0.86/1000 gallons, or 19.4%, a twenty-five (25) million dollar bond was issued in 2011 raising the rates \$0.80/1000 gallons, or 15.1%, two bonds were issued in 2012 totaling eleven (11) million dollars with no rate increase, and finally a fourteen (14) million dollar bond was issued in 2013 raising the rates \$1.75/1000 gallons, or 28%. In 2014 the Authority issued a \$6.4 million dollar bond to refund the Authority's outstanding Sewer Revenue Bonds Series of 2008, raising rates \$0.10/1000 gallons, or 1%, due to increased utility costs for operation of the new treatment plant processes that have gone online. In 2015 the Authority did not issue any new debt, but did have a minimal rate increase of \$0.10/1000 gallons, or 1%. The project is 99% complete, just awaiting project closeout and final payments. The Authority expects future rate increases to be minimal, 1% or lower over the next few years.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2015 and 2014

**GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)**

The US Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result the federal government funded the relocation of most of the CSO structures. Construction for Phase 1 of the project was completed in 2007 and phase (II) of the project was completed in 2010. One remaining outfall, Evans Avenue, remains to be raised to complete the project, however funding was not available in 2011 and currently still remains unfunded. The Authority's new outfall structures have greatly reduced the amount of river water that flows back through the pipes and into the sewer lines. This in return has reduced the costs associated with treating unnecessary water.

**CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to show the Board of Directors' accountability for the money they administer on behalf of the customers of the Municipal Authority of the City of McKeesport. If you have questions about this report or wish to request additional financial information, please contact the Authority offices at 100 Atlantic Avenue, McKeesport, PA 15132, (412)-673-9701.



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31,**

|   | <u>2015</u>                 | <u>2014</u>                  |
|---|-----------------------------|------------------------------|
| <b><u>ASSETS</u></b>                                      |                             |                              |
| <b>CURRENT ASSETS:</b>                                    |                             |                              |
| Cash and Cash Equivalents                                 | \$ 605,230                  | \$ 1,440,931                 |
| Cash and Cash Equivalents - Restricted                    | 55,449                      | 70,363                       |
| Sewage Service Receivable                                 | 1,757,902                   | 1,771,506                    |
| Delinquent Sewage Service Receivable - City of McKeesport | 192,458                     | 192,458                      |
| Allowance for Doubtful Accounts                           | -                           | (287,213)                    |
| Accrued Sewage Service (Unbilled)                         | 1,455,542                   | 1,078,300                    |
| Prepaid Intergovernmental Fees                            | 469,699                     | -                            |
| Deposits  | 3,000                       | 3,000                        |
| <b>TOTAL CURRENT ASSETS</b>                               | <b><u>\$ 4,539,280</u></b>  | <b><u>\$ 4,269,345</u></b>   |
| <b>RESTRICTED ASSETS:</b>                                 |                             |                              |
| Investments   | \$ 6,967,248                | \$ 8,323,716                 |
| <b>TOTAL RESTRICTED ASSETS</b>                            | <b><u>\$ 6,967,248</u></b>  | <b><u>\$ 8,323,716</u></b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT (NOTE 3):</b>            |                             |                              |
| Land  | \$ 61,132                   | \$ 61,132                    |
| Infrastructure and Site Improvements                      | 33,487,620                  | 33,502,793                   |
| Buildings and Building Improvements                       | 33,723,580                  | 10,165,226                   |
| Plant Machinery and Equipment                             | 22,627,410                  | 7,955,983                    |
| Office Machinery and Equipment                            | 126,615                     | 143,791                      |
| Vehicles and Equipment                                    | 1,409,440                   | 1,354,294                    |
|   | <u>\$ 91,435,797</u>        | <u>\$ 53,183,219</u>         |
| Less: Accumulated Depreciation                            | (17,622,003)                | (17,485,167)                 |
|   | <u>\$ 73,813,794</u>        | <u>\$ 35,698,052</u>         |
| Construction in Progress                                  | -                           | 58,265,701                   |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b>                  | <b><u>\$ 73,813,794</u></b> | <b><u>\$ 93,963,753</u></b>  |
| <b>TOTAL ASSETS</b>                                       | <b><u>\$ 85,320,322</u></b> | <b><u>\$ 106,556,814</u></b> |
| <b><u>DEFERRED OUTFLOW OF RESOURCES</u></b>               |                             |                              |
| Deferred Interest on Advance Refunding                    | \$ 1,450,671                | \$ 1,512,821                 |
| Deferred Outflow of Resources - Pension                   | 257,434                     | -                            |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>               | <b><u>\$ 1,708,105</u></b>  | <b><u>\$ 1,512,821</u></b>   |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>    | <b><u>\$ 87,028,427</u></b> | <b><u>\$ 108,069,635</u></b> |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31,**  
**(CONTINUED)**

|   | <u>2015</u>                  | <u>2014</u>                  |
|---|------------------------------|------------------------------|
| <b>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</b>       |                              |                              |
| <b>CURRENT LIABILITIES:</b>   |                              |                              |
| Accounts Payable  | \$ 313,251                   | \$ 349,186                   |
| Retainage Payable   | 343,445                      | 1,286,154                    |
| Accrued Payroll and Taxes   | 124,723                      | 103,698                      |
| Sewage Service Deposits   | 2,550                        | 2,550                        |
| Accrued Interest  | 136,379                      | 137,801                      |
| Capital Leases - Current Portion  | 160,202                      | 163,390                      |
| Current Portion of Bonds and Notes Payable                              | 2,479,174                    | 1,475,000                    |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b><u>\$ 3,559,724</u></b>   | <b><u>\$ 3,517,779</u></b>   |
| <b>LONG-TERM LIABILITIES:</b>   |                              |                              |
| Bonds Payable - Long Term Portion (Net)                                 | \$ 72,733,305                | \$ 74,235,443                |
| Pennvest Loan Payable   | 15,961,855                   | 13,377,200                   |
| Sewer Revenue Note 2011   | -                            | 546,934                      |
| First Commonwealth Note Payable   | 10,825                       | -                            |
| Capital Leases - Long Term Portion                                      | 38,250                       | 198,453                      |
| Net OPEB Liability  | 759,290                      | 602,595                      |
| Net Pension Liability   | 1,769,869                    | -                            |
| Compensated Absences  | 164,351                      | 148,297                      |
| <b>TOTAL LONG-TERM LIABILITIES</b>                                      | <b><u>\$ 91,437,745</u></b>  | <b><u>\$ 89,108,922</u></b>  |
| <b>TOTAL LIABILITIES</b>  | <b><u>\$ 94,997,469</u></b>  | <b><u>\$ 92,626,701</u></b>  |
| <b>DEFERRED INFLOW OF RESOURCES:</b>                                    |                              |                              |
| Deferred Inflow of Resources - Pension                                  | \$ 113,045                   | \$ -                         |
| <b>TOTAL DEFERRED INFLOW OF RESOURCES</b>                               | <b><u>\$ 113,045</u></b>     | <b><u>\$ -</u></b>           |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>               | <b><u>\$ 95,110,514</u></b>  | <b><u>\$ 92,626,701</u></b>  |
| <b>NET POSITION:</b>  |                              |                              |
| Net Investment in Capital Assets  | \$ (14,730,364)              | \$ 6,819,924                 |
| Restricted for Debt Service   | 5,576,557                    | 5,569,004                    |
| Unrestricted  | 1,071,720                    | 3,054,006                    |
| <b>TOTAL NET POSITION</b>   | <b><u>\$ (8,082,087)</u></b> | <b><u>\$ 15,442,934</u></b>  |
| <b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</b> | <b><u>\$ 87,028,427</u></b>  | <b><u>\$ 108,069,635</u></b> |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31,**

|  | <b>2015</b>           | <b>2014</b>           |
|--|-----------------------|-----------------------|
| <b><u>OPERATING REVENUES</u></b>                                     |                       |                       |
| Sewage Treatment Services  | \$ 12,901,104         | \$ 13,068,117         |
| Sludge Hauling   | 101,813               | 110,683               |
| Tap Fees and Permits   | 12,250                | 80,500                |
| Miscellaneous  | 32,677                | 54,729                |
|  | <b>\$ 13,047,844</b>  | <b>\$ 13,314,029</b>  |
| <b><u>OPERATING EXPENSES</u></b>                                     |                       |                       |
| Personnel Costs  | \$ 4,126,408          | \$ 4,023,979          |
| Professional Services  | 328,759               | 255,492               |
| Sewage Plant Costs   | 1,789,156             | 1,687,267             |
| Other General and Administrative                                     | 392,040               | 375,446               |
| Bad Debt Expense   | 230,865               | 287,213               |
| Depreciation   | 2,368,937             | 1,323,547             |
|  | <b>\$ 9,236,165</b>   | <b>\$ 7,952,944</b>   |
| <b>NET OPERATING INCOME BEFORE NON-OPERATING REVENUE AND EXPENSE</b> | <b>\$ 3,811,679</b>   | <b>\$ 5,361,085</b>   |
| <b><u>NON-OPERATING REVENUE AND (EXPENSE)</u></b>                    |                       |                       |
| Interest Income  | \$ 12,309             | \$ 12,219             |
| PENNVEST Grant Proceeds  | 753,293               | 211,828               |
| FEMA Grant Proceeds  | 468,438               | -                     |
| Intergovernmental Agreement Fee                                      | (1,030,301)           | (1,020,100)           |
| Interest on Long-Term Debt   | (3,349,738)           | (3,568,314)           |
| Bond Issue Costs   | -                     | (224,643)             |
| Gain <Loss> on Disposal of Fixed Assets                              | -                     | 31,190                |
| <b>TOTAL NON-OPERATING REVENUE AND (EXPENSE)</b>                     | <b>\$ (3,145,999)</b> | <b>\$ (4,557,820)</b> |
| <b>INCREASE &lt;DECREASE&gt; IN NET POSITION</b>                     | <b>\$ 665,680</b>     | <b>\$ 803,265</b>     |
| NET POSITION - JANUARY 1,  | 15,442,934            | 14,639,669            |
| Prior Period Adjustment  | (24,190,701)          | -                     |
| <b>NET POSITION - DECEMBER 31,</b>                                   | <b>\$ (8,082,087)</b> | <b>\$ 15,442,934</b>  |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

|  | <u>2015</u>           | <u>2014</u>           |
|--|-----------------------|-----------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>   |                       |                       |
| Cash Received from Sewage Billings   | \$ 12,166,128         | \$ 12,807,740         |
| Cash Paid to Employees for Salaries and Benefits   | (4,039,549)           | (3,814,020)           |
| Cash Paid to Suppliers for Goods and Services  | (1,981,364)           | (2,275,301)           |
| <b>Net Cash Provided by Operating Activities</b>   | <b>\$ 6,145,215</b>   | <b>\$ 6,718,419</b>   |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                             |                       |                       |
| (Increase) Decrease in Restricted Assets   | \$ 1,356,468          | \$ 1,801,915          |
| Proceeds from Bond Issues  | -                     | 6,410,000             |
| Proceeds from Sewer Revenue Note   | 1,140,530             | 920,983               |
| Proceeds from Pennvest Loan  | 753,293               | 211,828               |
| Grant Proceeds   | 1,221,731             | 211,828               |
| Proceeds from Capital Leases   | 21,650                | 376,718               |
| Bond Issue Costs   | -                     | (224,643)             |
| Principal Payments on Long-Term Debt   | (3,730,407)           | (8,251,540)           |
| Interest Paid on Long-Term Debt  | (3,271,149)           | (3,492,082)           |
| Purchase of Property and Equipment (Net of Refund)   | (3,000,255)           | (3,294,056)           |
| <b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>                    | <b>\$ (5,508,139)</b> | <b>\$ (5,329,049)</b> |
| <b><u>CASH FLOWS FROM NON CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                         |                       |                       |
| Intergovernmental Agreement Fee  | \$ (1,500,000)        | \$ (1,020,100)        |
| <b>Net Cash (Used for) Non Capital and Related Financing Activities</b>                            | <b>\$ (1,500,000)</b> | <b>\$ (1,020,100)</b> |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>   |                       |                       |
| Interest Income Received   | \$ 12,309             | \$ 12,220             |
| <b>Net Cash Provided By Investing Activities</b>   | <b>\$ 12,309</b>      | <b>\$ 12,220</b>      |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>  | <b>\$ (850,615)</b>   | <b>\$ 381,490</b>     |
| CASH AND CASH EQUIVALENTS - JANUARY 1  | 1,511,294             | 1,129,804             |
| <b>CASH AND CASH EQUIVALENTS - DECEMBER 31</b>   | <b>\$ 660,679</b>     | <b>\$ 1,511,294</b>   |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>             |                       |                       |
| Net Operating Income   | \$ 3,811,679          | \$ 5,361,085          |
| <b>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:</b> |                       |                       |
| Depreciation   | 2,368,937             | 1,323,547             |
| Bad Debt Expense   | 230,865               | 287,213               |
| <b>Change in Current Assets and Liabilities:</b>   |                       |                       |
| (Increase) Decrease in Accounts Receivable   | (499,297)             | (502,889)             |
| (Increase) Decrease in Deferred Outflow of Resources - Pension                                     | (257,434)             | -                     |
| Increase (Decrease) in Accounts Payable  | (10,523)              | 42,904                |
| Increase (Decrease) in Accrued Expenses  | 37,079                | 11,328                |
| Increase (Decrease) in Sewage Service Deposits   | -                     | (3,400)               |
| Increase (Decrease) in Net OPEB Obligation   | 156,695               | 194,746               |
| Increase (Decrease) in Net Pension Liability   | 194,169               | -                     |
| Increase (Decrease) in Deferred Inflow of Resources - Pension                                      | 113,045               | -                     |
| Increase (Decrease) in Accumulated Compensated Absences  | -                     | 3,885                 |
| <b>Net Cash Provided by Operating Activities</b>   | <b>\$ 6,145,215</b>   | <b>\$ 6,718,419</b>   |

The accompanying notes are an integral part of these financial statements.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipal Authority of the City of McKeesport (the Authority) is a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipality Authorities Act of 1945. The Act was amended by the Act 22 of June 19, 2001 (P.L. 287, No. 22). The Council of the City of McKeesport (the City) created the Authority on November 29, 1949 under an order from the Sanitary Water Board of the Commonwealth of Pennsylvania. The Authority was created for a period of 50 years to end December 5, 1999, and was subsequently extended through December 5, 2057. The Authority was created for the purpose of acquiring, holding, constructing, improving, maintaining and operating, owning and leasing (either in capacity as lessor or lessee) certain projects. These projects include sewers, sewer systems or parts thereof, sewage treatment works, also including the acquisition of land for sewage treatment works and pumping stations, and all other necessary facilities and apparatus that the Board of Directors may authorize as necessary for the project. The Authority provides waste collection and treatment services, under agreement, for the following municipalities:

|                         |                          |
|-------------------------|--------------------------|
| City of McKeesport      | White Oak Borough        |
| Port Vue Borough        | Liberty Borough          |
| East McKeesport Borough | Elizabeth Authority      |
| Glassport Borough       | Lincoln Borough          |
| Versailles Borough      | North Versailles Borough |
| City of Duquesne        | Dravosburg Borough       |

Per the terms of these agreements, the Authority is the provider of sewage treatment and disposal service to the above municipalities, and these municipalities have agreed to construct and maintain such sewers, interceptors and pumping stations as is necessary to bring the sewage and industrial waste to a point where it flows into the interceptors of the Authority.

The five-members of the Authority Board of Directors are appointed by the members of Council of the City of McKeesport. Revenue or other cash received must be disbursed in accordance with provisions of the Trust Indentures dated October 1, 2006, as amended and supplemented by the First Supplemental Trust Indenture dated as of October 2, 2008, as amended and supplemented by the Second Supplemental Trust Indenture dated as of December 1, 2009, as amended and supplemented by the Third Supplemental Trust Indenture dated as of December 28, 2010, as amended and supplemented by the Fourth Supplemental Trust Indenture dated August 31, 2011, as amended and supplemented by the Fifth Supplemental Trust Indenture dated January 5, 2012, as amended and supplemented by the Sixth Supplemental Trust Indenture dated August 23, 2012, as amended and supplemented by the Seventh Supplemental Trust Indenture dated January 16, 2013, and as amended and supplemented by the Eighth Supplemental Trust Indenture dated February 19, 2014 by and between the Authority and the Bank of New York Mellon Trust Company as trustee, securing the Sewer Revenue Bonds Series of 2009, 2010, 2011, 2012, 2012B, 2013 and 2014 respectively.

The financial statement of the Municipal Authority of the City of McKeesport have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 'enterprise (proprietary) funds'. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). During 2015, the Authority adopted the provisions of Government Accounting Standards Board (GASB) No. 68, 'Accounting and Financial Reporting for Pensions'.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The more significant accounting policies established in GAAP and used by the Authority are discussed below.

**REPORTING ENTITY**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Municipal Authority of the City of McKeesport consists of all funds, departments, boards and agencies that are not legally separate from the Authority. As defined by GASB No. 14, component units are legally separate entities that included in the Authority's reporting entity because of the significance of their operating or financial relationships with the Authority. Based on the application of these criteria, the Municipal Authority of the City of McKeesport has no component units.

**BASIS OF ACCOUNTING**

The Authority is accounted for as an enterprise fund since its operations are financed and operated in a manner similar to the private sector. The Authority utilizes the accrual method of accounting. Under this method, revenues are recognized when earned rather than when cash is received, and expenses are recognized when an obligation is incurred rather than when cash is actually paid.

**CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash and cash equivalents include amounts in demand deposit accounts, and any other short-term highly liquid assets with original maturity terms of less than three months. Cash and cash equivalents – restricted represents the balance of PNC Sewer Revenue Note funds (Note 4) and funds received from the Pennsylvania Infrastructure Investment Authority (Note 4) restricted for the Authority's Waste Water Treatment Plant (WWTP) expansion project.

**INVESTMENTS**

The Municipal Authorities Act authorizes the Authority to invest in the following:

- I. U.S. Treasury Bills
- II. Short-term obligation of the U.S. Government or its agencies or instrumentalities
- III. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation and National Credit Union Share Insurance Fund (NCUSIF)
- IV. Obligations of the United States of America, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth of Pennsylvania, or any of their agencies or instrumentalities backed by the full faith and credit of the governmental units
- V. Shares of an investment company registered under the Investment Company Act of 1940, and registered under the Securities Act of 1933
- VI. Any investment authorized by 20 Pa. C.S. Ch. 73 relating to fiduciaries investments.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**INVESTMENTS (Continued)**

In addition, the Board of Directors can invest the Authority's sinking funds as authorized for local governments in the Local government Unit Debt Act, 53 Pa.C.S. 8224. Investment of the Authority's restricted assets are made pursuant to and restricted by the aforementioned Trust Indentures securing the Sewer Revenue Bonds Series of 2009, 2010, 2011, 2012, 2012B, 2013, and 2014. Investments for 2015 and 2014 (See Restricted Assets) include Dreyfus Government cash management agency fund shares, certificates of deposit, corporate notes, fixed income investments with the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. Investments are stated at fair value. The Authority is in compliance with these restrictions as of December 31, 2015 and 2014.

**RESTRICTED ASSETS**

In accordance with the provisions of the aforementioned Trust Indentures, by and between the Bank of New York Mellon Trust Company and the Municipal Authority of the City of McKeesport, which secure the Authority's Sewer Revenue Bonds, the Authority is obligated to restrict certain funds to pay for construction related expenditures and to meet debt service requirements. These funds are reflected in Exhibit A as 'restricted assets' and are further detailed in Note 2.

**ACCOUNTS RECEIVABLE**

Accounts receivable are stated at net realizable value. Receivables are mainly comprised of billed and unbilled sewage services rendered to the participating municipalities as herein described in Note 1. Management utilizes the allowance method for charging bad debt expense to operations for customer accounts receivable. Management estimated a provision for bad debts of \$0 and \$287,213 respectively for the years ended December 31, 2015 and 2014.

**INVENTORY**

The Authority does not maintain a physical inventory of materials, chemicals, and other supplies. Management estimates that inventory values during the year are minimal for cost control purposes. Accordingly, management is of the opinion that any value that existed at December 31, 2015 and 2014 would not materially affect the financial position of the Authority.

**ESTIMATES**

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

**UNEARNED REVENUE**

Unearned revenue arises when the Authority receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the unearned revenue liability is removed and revenue is recognized.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**LONG-TERM DEBT FINANCING COSTS**

Bond issuance costs are recorded as expenditures in the financial statements in the year paid. During the 2014 calendar year, the Authority paid \$224,643 in bond issuance costs as reflected on the statement of revenues, expenditures, and changes in net position (Exhibit B).

**PROPERTY, PLANT, AND EQUIPMENT**

The Authority records property, plant and equipment purchases at cost. Property, plant and equipment include major betterments that extend the economic useful life of the assets affected. The Authority maintains a capitalization threshold of \$5,000. Routine repair and maintenance costs are charged to operations as incurred. Depreciation expense is calculated on a straight-line basis over the estimated useful life of the asset as follows:

|                            |             |
|----------------------------|-------------|
| Infrastructure             | 50 Years    |
| Site Improvements          | 5-30 Years  |
| Buildings and Improvements | 20-40 Years |
| Machinery and Equipment    | 5-20 Years  |
| Office Equipment           | 5-15 Years  |
| Vehicles                   | 8 Years     |

Depreciation expense for the year ended December 31, 2015 and 2014 was \$2,368,937 and \$1,323,547 respectively. Construction in progress as of December 31, 2014 was comprised of the following Authority projects:

|   | <u>12/31/2014</u>    |
|---|----------------------|
| Act 537 System Improvements Project:        |                      |
| Engineering and Other Professional Fees     | \$ 4,502,330         |
| WWTP Expansion Project                      | 32,020,182           |
| Pump Stations Construction                  | 17,575,682           |
| East/West Shore Sanitary Sewer Construction | 1,506,357            |
| Rotary Press Project                        | 867,570              |
| River Crossing Force Main                   | 1,793,580            |
|   | <u>\$ 58,265,701</u> |

**NET POSITION**

Net Position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy Authority obligations. Net Position is classified 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 debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**NET POSITION (Continued)**

- Restricted Net Position – This component of Net Position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.
- Unrestricted – Consists of all other Net Position that does not meet the definition of ‘restricted’ or ‘net investment in capital assets’.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

In addition to assets and liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows and/or inflows of resources. These separate financial statement elements represent a decrease and/or increase in net position that applies to a future period and so will not be recognized as an outflow and/or inflow of resources (expense/expenditure or income/revenue) in the current period.

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Municipal Authority of the City of McKeesport, these revenues are sewer user charges, sludge hauling fees, tap-in fees, and other miscellaneous revenues generated from operating activities. Operating expenses are the necessary costs incurred to operate the Authority. Non-operating revenues of the Authority consist of grant and interest revenue. Non-operating expenses consist of interest on long-term debt and bond issuance cost expense.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**CASH DEPOSITS:**

At December 31, 2015 and 2014, the Authority had the following bank balances and carrying value on its' cash and cash equivalent accounts:

|  | <b>--- December 31, 2015 ---</b> |                            | <b>--- December 31, 2014 ---</b> |                            |
|--|----------------------------------|----------------------------|----------------------------------|----------------------------|
|  | <b>Bank<br/>Balance</b>          | <b>Carrying<br/>Value</b>  | <b>Bank<br/>Balance</b>          | <b>Carrying<br/>Value</b>  |
| Cash and Cash<br>Equivalents                                       | \$ 639,227                       | \$ 660,679                 | \$ 1,388,096                     | \$ 1,511,294               |
| Certificates of Deposit<br>(Shown as part of<br>Restricted Assets) | <u>3,829,692</u>                 | <u>3,829,692</u>           | <u>4,655,000</u>                 | <u>4,655,000</u>           |
|  | <u><u>\$ 4,468,919</u></u>       | <u><u>\$ 4,490,371</u></u> | <u><u>\$ 6,043,096</u></u>       | <u><u>\$ 6,166,294</u></u> |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**CASH DEPOSITS: (Continued)**

The difference between the bank balance and the carrying value represents reconciling items such as deposits in transit and outstanding checks. The Federal Deposit Insurance Corporation (FDIC) coverage threshold for government accounts is \$250,000 per official custodian. This coverage includes checking and savings accounts, money market deposit accounts, and certificates of deposit.

**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 to it. The Authority does not have a separate policy for custodial credit risk in addition to the requirements of State Law. As of December 31, 2015 and 2014, \$389,227 and \$1,138,096 respectively of the Authority's bank balance totals are exposed to custodial credit risk as these amounts represent uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Authority's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, the aforementioned deposits, in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

**INVESTMENTS:**

The fair value and maturity term of the Authority's investments as of December 31, 2015 and 2014 is as follows:

|                          | ----- December 31, 2015 ----- |                               |                     |
|--------------------------|-------------------------------|-------------------------------|---------------------|
|                          | <u>Fair Value</u>             | <u>No Stated<br/>Maturity</u> | <u>0-1 Years</u>    |
| Dreyfus Cash Mgt Funds   | \$ 51,776                     | \$ 51,776                     | \$ -                |
| U.S. Agency Fixed Income | 3,085,780                     | -                             | 3,085,780           |
|                          | <u>\$ 3,137,556</u>           | <u>\$ 51,776</u>              | <u>\$ 3,085,780</u> |
|                          | ----- December 31, 2014 ----- |                               |                     |
|                          | <u>Fair Value</u>             | <u>No Stated<br/>Maturity</u> | <u>0-1 Years</u>    |
| Dreyfus Cash Mgt Funds   | \$ 1,020,442                  | \$ 1,020,442                  | \$ -                |
| U.S. Agency Fixed Income | 2,648,274                     | -                             | 2,648,274           |
|                          | <u>\$ 3,668,716</u>           | <u>\$ 1,020,442</u>           | <u>\$ 2,648,274</u> |

Investments classified as U.S. Agencies are securities of agencies of the U.S. Government that have an implied but not explicit guarantee.

**Credit Risk:**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has no formal investment policy that limits its investment choices based on credit ratings by nationally recognized rating organizations. As of December 31, 2015 and 2014, investments in U.S. Agencies and Corporate Notes have received an 'AA+' rating from Standard & Poors.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**INVESTMENTS: (Continued)**

**Custodial Credit Risk:**

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Authority's investments in Dreyfus Cash Management Agency Funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Authority does not have a formal investment policy for custodial credit risk.

**Interest Rate Risk:**

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. The Authority's certificate of deposit, corporate note, and U.S. Agency fixed income security investments have maturity terms of less than 1 year.

**Concentration of Credit Risk:**

The Authority places no limit on the amount it may invest in any one issuer.

The Authority's restricted assets as of December 31, 2015 and 2014 are comprised of the following:

|                    | <b><u>12/31/2015</u></b>   | <b><u>12/31/2014</u></b>   |
|--------------------|----------------------------|----------------------------|
| Construction Funds | \$ 1,388,782               | \$ 2,752,803               |
| Clearing Fund      | 1,909                      | 1,909                      |
| Debt Service Funds | 5,576,557                  | 5,569,004                  |
|                    | <b><u>\$ 6,967,248</u></b> | <b><u>\$ 8,323,716</u></b> |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT**

The following comprises the changes to the Authority's property, plant, and equipment account during 2015 and 2014:

|                                | <b>Balance<br/>1/1/2015</b> | <b>Additions</b>     | <b>Deletions</b>       | <b>Balance<br/>12/31/2015</b> |
|--------------------------------|-----------------------------|----------------------|------------------------|-------------------------------|
| Land                           | \$ 61,132                   | \$ -                 | \$ -                   | \$ 61,132                     |
| Infrastructure                 | 33,502,793                  | 3,184,263            | (3,199,436)            | 33,487,620                    |
| Buildings                      | 10,165,226                  | 23,558,354           | -                      | 33,723,580                    |
| Plant Machinery and Equipment  | 7,955,983                   | 14,671,427           | -                      | 22,627,410                    |
| Office Machinery and Equipment | 143,791                     | 19,285               | (36,461)               | 126,615                       |
| Vehicles and Equipment         | 1,354,294                   | 55,146               | -                      | 1,409,440                     |
|                                | <u>\$ 53,183,219</u>        | <u>\$ 41,488,475</u> | <u>\$ (3,235,897)</u>  | <u>\$ 91,435,797</u>          |
| Less: Accumulated Depreciation | (17,485,167)                | (2,368,937)          | 2,232,101              | (17,622,003)                  |
|                                | <u>\$ 35,698,052</u>        | <u>\$ 39,119,538</u> | <u>\$ (1,003,796)</u>  | <u>\$ 73,813,794</u>          |
| Construction in Progress       | 58,265,701                  | 402,419              | (58,668,120)           | -                             |
|                                | <u>\$ 93,963,753</u>        | <u>\$ 39,521,957</u> | <u>\$ (59,671,916)</u> | <u>\$ 73,813,794</u>          |

|                                | <b>Balance<br/>1/1/2014</b> | <b>Additions</b>    | <b>Deletions</b>    | <b>Balance<br/>12/31/2014</b> |
|--------------------------------|-----------------------------|---------------------|---------------------|-------------------------------|
| Land                           | \$ 61,132                   | \$ -                | \$ -                | \$ 61,132                     |
| Infrastructure                 | 33,502,793                  | -                   | -                   | 33,502,793                    |
| Buildings                      | 10,159,726                  | 5,500               | -                   | 10,165,226                    |
| Plant Machinery and Equipment  | 7,993,262                   | 17,096              | (54,375)            | 7,955,983                     |
| Office Machinery and Equipment | 127,306                     | 20,470              | (3,985)             | 143,791                       |
| Vehicles and Equipment         | 1,100,324                   | 421,970             | (168,000)           | 1,354,294                     |
|                                | <u>\$ 52,944,543</u>        | <u>\$ 465,036</u>   | <u>\$ (226,360)</u> | <u>\$ 53,183,219</u>          |
| Less: Accumulated Depreciation | (16,378,170)                | (1,323,547)         | 216,550             | (17,485,167)                  |
|                                | <u>\$ 36,566,373</u>        | <u>\$ (858,511)</u> | <u>\$ (9,810)</u>   | <u>\$ 35,698,052</u>          |
| Construction in Progress       | 56,523,141                  | 1,742,560           | -                   | 58,265,701                    |
|                                | <u>\$ 93,089,514</u>        | <u>\$ 884,049</u>   | <u>\$ (9,810)</u>   | <u>\$ 93,963,753</u>          |

In calendar year 2015, the Authority contracted for and completed an updated appraisal of the acquisition cost of all of its plant assets as a result of significant plant expansion and renovation over the past 7 years. As a result of this updated appraisal, asset categories as shown on the statement of next position, in some instances, changed significantly from calendar year 2014 to calendar year 2015 as a result of capitalizing prior year construction in progress. This updated appraisal determined that certain prior year assets (structures and equipment) had been completely renovated or replaced and accordingly had to be removed from the Authority's cost value for its property, plant and equipment. The corresponding reduction is reflected as part of the Authority's prior period adjustments as stated on the statement of revenues, expenses and changes in net position. Depreciation expense increased significantly in calendar year 2015 as a result of the additional capitalization on assets formerly shown as construction in progress.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 – LONG-TERM DEBT**

**SEWER REVENUE BONDS – SERIES OF 2009**

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 under the terms of a Trust Indenture dated December 1, 2009, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

**SEWER REVENUE BONDS – SERIES OF 2010**

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 2.0 and 5.16%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2040.

**SEWER REVENUE BONDS – SERIES OF 2011**

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.25 and 5.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2030.

**SEWER REVENUE BONDS – SERIES OF 2012**

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 4 – LONG-TERM DEBT (Continued)**

**SEWER REVENUE BONDS – SERIES B OF 2012**

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033.

**SEWER REVENUE BONDS – SERIES OF 2013**

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041.

**SEWER REVENUE BONDS – SERIES OF 2014**

In January of 2014, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2014 under the terms of a Trust Indenture dated February 19, 2014, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$6,410,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2008, 2) fund construction and/or acquisition of capital additions, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at interest rates ranging between 1.0% and 4.65%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 4 – LONG-TERM DEBT (Continued)**

The following summarizes the Authority's bond debt service obligations of the Authority as of December 31, 2015:

| <b>Year</b> | <b>2009<br/>Principal</b> | <b>2010<br/>Principal</b> | <b>2011<br/>Principal</b> | <b>2012<br/>Principal</b> |
|-------------|---------------------------|---------------------------|---------------------------|---------------------------|
| 2016        | \$ 185,000                | \$ 25,000                 | \$ 1,085,000              | \$ 190,000                |
| 2017        | 190,000                   | 45,000                    | 1,110,000                 | 190,000                   |
| 2018        | 200,000                   | 65,000                    | 1,145,000                 | 195,000                   |
| 2019        | 210,000                   | 85,000                    | 1,190,000                 | 200,000                   |
| 2020        | 220,000                   | 115,000                   | 1,230,000                 | 200,000                   |
| 2021-2025   | 1,270,000                 | 955,000                   | 7,015,000                 | 1,115,000                 |
| 2026-2030   | 1,635,000                 | 800,000                   | 8,810,000                 | 1,315,000                 |
| 2031-2035   | 2,165,000                 | 3,325,000                 | -                         | 1,600,000                 |
| 2036-2040   | 3,415,000                 | 6,775,000                 | -                         | 360,000                   |
| 2041        | -                         | 1,570,000                 | -                         | -                         |
|             | <b>\$ 9,490,000</b>       | <b>\$ 13,760,000</b>      | <b>\$ 21,585,000</b>      | <b>\$ 5,365,000</b>       |

| <b>Year</b> | <b>2012 B<br/>Principal</b> | <b>2013<br/>Principal</b> | <b>2014<br/>Principal</b> | <b>Interest</b>      | <b>Total</b>          |
|-------------|-----------------------------|---------------------------|---------------------------|----------------------|-----------------------|
| 2016        | \$ 5,000                    | -                         | \$ 30,000                 | \$ 3,574,641         | \$ 5,094,641          |
| 2017        | 5,000                       | -                         | 30,000                    | 3,538,754            | 5,108,754             |
| 2018        | 5,000                       | -                         | 30,000                    | 3,492,388            | 5,132,388             |
| 2019        | 5,000                       | -                         | 30,000                    | 3,431,244            | 5,151,244             |
| 2020        | 5,000                       | -                         | 35,000                    | 3,071,193            | 4,876,193             |
| 2021-2025   | 25,000                      | -                         | 180,000                   | 14,125,841           | 24,685,841            |
| 2026-2030   | 25,000                      | -                         | 1,125,000                 | 11,369,231           | 25,079,231            |
| 2031-2035   | 4,560,000                   | 2,895,000                 | 2,450,000                 | 8,197,875            | 25,197,875            |
| 2036-2040   | -                           | 7,935,000                 | 2,395,000                 | 3,935,075            | 24,815,075            |
| 2041        | -                           | 2,885,000                 | -                         | 193,900              | 4,648,900             |
|             | <b>\$ 4,635,000</b>         | <b>\$ 13,715,000</b>      | <b>\$ 6,305,000</b>       | <b>\$ 54,930,142</b> | <b>\$ 129,790,142</b> |

**DEFERRED FINANCING COSTS AND BOND PREMIUMS**

The bond discounts in connection with the Authority's currently outstanding bond issues totaled \$1,466,506. This amount is being amortized on a straight-line basis over the life of the bond issues and is charged as a component of interest expense in the statement of revenues, expenses and changes in net position. The unamortized amount of bond discount at December 31, 2015 and 2014 totaling \$1,292,670 and \$1,231,845 respectively, is reflected in Exhibit A as a reduction in 'bonds payable - long-term portion'. The amount of discount charged to interest expense was \$60,825 and \$59,469 for 2015 and 2014 respectively.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 4 – LONG-TERM DEBT (Continued)**

**DEFERRED FINANCING COSTS AND BOND PREMIUMS (Continued)**

The bond premium in connection with the Series of 2011 Sewer Revenue Bonds was \$816,328. This amount is being accreted on a straight-line basis over the life of the bond issue and is credited as a component of interest expense in the statement of revenues, expenses and changes in net position. The un-accreted amount of bond premium was \$630,148 and \$673,113 for at December 31, 2015 and 2014 respectively, and is reflected in Exhibit A as an addition to 'bonds payable - long-term portion'. The amount of premium credited to interest expense was \$42,965 for 2015 and 2014.

In connection with the issuance of Sewer Revenue Bonds – Series B of 2012 and Series of 2013, the Authority entered into irrevocable trust agreements with the Bank of New York Mellon Trust Company to purchase U.S. Government Securities in an amount sufficient to fully service a portion of the Series of 2008, Series of 2010, and Series of 2011 Sewer Revenue Bond Issue debt as they mature or are called. For financial reporting purposes, these bonds are considered defeased and therefore removed as a liability from the Authority's financial statements.

The difference between the defeased debt and the reacquisition price (amount deposited with escrow agent for refunding purposes) totaling \$1,627,427, is considered 'deferred interest' and is being amortized over the life of the new bond issue. The annual amortization of this deferred interest was \$62,150 for 2014 and 2015, and is reflected as a component of interest expense in the Statement of Revenues, Expenses and Changes in Net Position (Exhibit B). The unamortized amount of deferred interest at December 31, 2014 and December 31, 2015 totaling \$1,512,821 and \$1,450,671 respectively is reflected in Exhibit A as 'Deferred Outflows of Resources'.

**SEWER REVENUE NOTE – SERIES OF 2011**

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.625%) equal to 75% of the Bank's Prime Rate. As of December 31, 2015, the outstanding balance on this Note obligation is \$148,962.

**PENNVEST**

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$15,015,205 on the loan as of December 31, 2015. The terms of the note agreement call for the current monthly payment of \$55,448.63 at an interest rate of 1. The note is scheduled to mature in November of 2038. The note is secured by the gross receipts of the Authority.



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**PENNVEST (Continued)**

In November of 2015, the Pennsylvania Infrastructure Investment Authority (PENNVEST) entered into an assumption agreement with the Municipal Authority of the City of McKeesport to assume the outstanding balance of an existing PENNVEST loan held by the City of McKeesport in the amount of \$2,051,467.42. The terms of the note agreement call for the monthly payment of \$17,780.19 at an interest rate of 1.69% scheduled to mature on May 1, 2026. The note is secured by the gross receipts of the Authority and guaranteed by the City of McKeesport.

In November of 2015, the Pennsylvania Infrastructure Investment Authority (PENNVEST) entered into an assumption agreement with the Municipal Authority of the City of McKeesport to assume the outstanding balance of an existing PENNVEST loan held by the City of McKeesport in the amount of \$1,132,795.66. The terms of the note agreement call for the monthly payment of \$8,223.11 at an interest rate of 1.065% scheduled to mature on February 1, 2028. The note is secured by the gross receipts of the Authority and guaranteed by the City of McKeesport.

**FIRST COMMONWEALTH BANK**

In September of 2015, the Authority entered into a promissory note agreement with First Commonwealth Bank for the purchase of a 2015 Chevrolet Cutaway for \$21,650. The terms of the note call for 2 annual payments of \$11,312.28 at an annual interest rate of 2.94%. The lease is scheduled to expire in September of 2017.

The following summarizes the remaining debt service obligation of the Authority on the PENNVEST and First Commonwealth Note obligations as of December 31, 2015:

| <b>Dec 31</b> | <b>2012<br/>Principal<br/>PENNVEST</b> | <b>2015<br/>Principal<br/>PENNVEST</b> | <b>2015<br/>Principal<br/>PENNVEST</b> | <b>2015<br/>Principal<br/>FIRST<br/>COMMONWEALTH</b> | <b>Interest<br/>Total</b>  |
|---------------|--|--|--|--|----------------------------|
| 2016          | \$ 531,936                             | \$ 180,337                             | \$ 87,114                              | \$ 10,825  | \$ 189,836                 |
| 2017          | 537,170                                | 183,408                                | 88,047                                 | 10,825   | 180,598                    |
| 2018          | 542,566                                | 186,532                                | 88,989                                 | -  | 159,336                    |
| 2019          | 548,017                                | 189,709                                | 89,941                                 | -  | 149,756                    |
| 2020          | 553,522                                | 192,940                                | 90,904                                 | -  | 140,057                    |
| 2021-2025     | 2,852,146                              | 1,015,124                              | 469,322                                | -  | 550,523                    |
| 2026-2030     | 2,998,316                              | 88,526                                 | 211,261                                | -  | 331,518                    |
| 2031-2035     | 3,151,978                              | -                                      | -                                      | -  | 174,940                    |
| 2036-2038     | 1,883,437                              | -                                      | -                                      | -  | 57,265                     |
|               | <b><u>\$ 13,599,088</u></b>            | <b><u>\$ 2,036,576</u></b>             | <b><u>\$ 1,125,578</u></b>             | <b><u>\$ 21,650</u></b>                              | <b><u>\$ 1,933,829</u></b> |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In March of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2014 Vactor Truck for \$352,801. The terms of the lease call for 12 quarterly payments of \$30,242.80 at an annual interest rate of 2.8%. The lease is scheduled to expire in March of 2017.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In May of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2013 Chevrolet Silverado for \$23,917. The terms of the lease call for 3 annual payments of \$8,309.51 at an annual interest rate of 2.1%. The lease is scheduled to expire in May of 2017.

A schedule of the future minimum lease rental payments as of December 31, 2015 is as follows:

| <u>Year</u> | <u>2012<br/>PNC<br/>Principal</u> | <u>2014<br/>PNC<br/>Principal</u> | <u>2014<br/>PNC<br/>Principal</u> | <u>Interest</u> | <u>Total</u>      |
|-------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------|-------------------|
| 2016        | \$ 33,093                         | \$ 7,971                          | \$ 119,138                        | \$ 2,932        | \$ 163,134        |
| 2017        | -                                 | 8,139                             | 30,111                            | 303             | 38,553            |
|             | <u>\$ 33,093</u>                  | <u>\$ 16,110</u>                  | <u>\$ 149,249</u>                 | <u>\$ 3,235</u> | <u>\$ 201,687</u> |

The following represents the changes in the Authority's long-term debt obligations during 2015 and 2014:

|                | <u>Balance<br/>1/1/2015</u> | <u>Additions</u>    | <u>Deletions</u>      | <u>Balance<br/>12/31/2015</u> | <u>Due Within One<br/>Year</u> |
|----------------|-----------------------------|---------------------|-----------------------|-------------------------------|--------------------------------|
| Bonds          | \$ 76,330,000               | \$ -                | \$ (1,475,000)        | \$ 74,855,000                 | \$ 1,520,000                   |
| Notes          | 13,924,134                  | 5,078,086           | (2,070,366)           | 16,931,854                    | 959,174                        |
| Capital Leases | 361,843                     | 21,650              | (185,041)             | 198,452                       | 160,202                        |
|                | <u>\$ 90,615,977</u>        | <u>\$ 5,099,736</u> | <u>\$ (3,730,407)</u> | <u>\$ 91,985,306</u>          | <u>\$ 2,639,376</u>            |
|                | <u>Balance<br/>1/1/2014</u> | <u>Additions</u>    | <u>Deletions</u>      | <u>Balance<br/>12/31/2014</u> | <u>Due Within<br/>One Year</u> |
| Bonds          | \$ 76,970,000               | \$ 6,410,000        | \$ (7,050,000)        | \$ 76,330,000                 | \$ 1,475,000                   |
| Note           | 13,788,859                  | 1,132,811           | (997,536)             | 13,924,134                    | -                              |
| Capital Leases | 189,129                     | 376,718             | (204,004)             | 361,843                       | 117,529                        |
|                | <u>\$ 90,947,988</u>        | <u>\$ 7,919,529</u> | <u>\$ (8,251,540)</u> | <u>\$ 90,615,977</u>          | <u>\$ 1,592,529</u>            |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 5 – LEASE RENTAL EXPENSE**

On October 17, 2008, the Authority entered into a lease purchase agreement with the City of McKeesport, effective January 1, 2009, for the purchase of the City's sanitary collection system. In connection with that agreement, the Authority agreed to also pay, on a monthly basis, the outstanding balance due on two (2) loans the City has with the Pennsylvania Infrastructure Investment Authority (PENNVEST) related to improvements made to the collection system. In November of 2015, the Authority entered into an assumption agreement with PENNVEST to assume the balance of debt of the aforementioned PENNVEST loans (Note 4). Accordingly, the outstanding balance as of the assumption date totaling \$3,184,263 was transferred to the Municipal Authority along with the related assets in that amount. During the calendar years 2015 and 2014, the Authority reimbursed the City \$260,192 and \$312,491 respectively for these PENNVEST loans.

**NOTE 6 – ACCUMULATED COMPENSATED ABENCES**

In accordance with the terms of the collective bargaining agreement between the Authority and the Utility Workers Union of America, AFL-CIO, all regular full-time employees are entitled to receive payment for the value of all unused vacation days upon separation of service from the Authority at the employee's regular daily rate. This practice also applies to administrative personnel not covered under the terms of the bargaining agreement. As of December 31, 2015 and 2014, the value of accumulated compensated absences totaled \$164,351 and \$148,297 respectively.

**NOTE 7 – TRANSACTIONS WITH THE CITY OF MCKEESPORT**

The Authority entered into an agreement with the City of McKeesport dated December 29, 1949, as amended June 2, 1992, to provide sewage treatment services to the City and to pay the City \$30,000 annually for the maintenance cost of the sewers located within the City. In addition, during 2008, the Authority was responsible for paying the City a quarterly administrative fee, based on water usage, for the City to bill and collect certain fees from its customers within the City. Effective February 1, 2009, the Authority began billing and collecting these fees directly to the customers within the City of McKeesport. In addition, the Authority paid the City of McKeesport \$600,000 for the estimated value of collectible delinquent sewage fees outstanding. This amount, less delinquent collections in 2015 and 2014, is reflected in the statement of net position as 'Delinquent Sewage Service Receivable – City of McKeesport' totaling \$192,458.

**NOTE 8 – AUTHORITY PENSION PLAN**

**Plan Administration**

The Municipal Authority of the City of McKeesport Pension Plan is a single-employer defined benefit pension plan. The Plan was established March 1, 1964, as amended, to provide retirement benefits to eligible employees of the Authority. The Plan is governed by the Board of Directors of the Municipal Authority of the City of McKeesport which may amend plan provisions, and which is responsible for the management of Plan assets.

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**NOTE 8 – AUTHORITY PENSION PLAN (Continued)**

**Plan Membership**

Plan membership as of December 31, 2015 was comprised of:

|   |    |
|---|----|
| Active employees  | 48 |
| Retirees and beneficiaries currently receiving benefits                 | 16 |
| Terminated employees entitled to benefits<br>but not yet receiving them | 1  |
| Total   | 65 |

**Plan Provisions**

A summary of the plan's provisions is as follows:

- PARTICIPANTS** - All employees whose customary employment with the Authority is for at least 20 hours per week and 5 months per year.
- ELIGIBILITY** - All participants are eligible for retirement benefits provided that they have attained the age of 62 and have completed 10 years of continuous service. Participants are eligible for early retirement at age 55 with 20 years of continuous service.
- VESTING** - 0% vested from zero to end of 10<sup>th</sup> year, 50% vested at end of 10<sup>th</sup> year, plus 5% vested for each additional year from 11<sup>th</sup> year and over up to 100% vested.
- BENEFITS** - The plan provides 50% of average compensation and short service percentage for participant with less than 20 years of service. The percentage of average compensation will increase 2% for each year of service over 20 years to a maximum of 80% of average compensation with 35 or more years of service..
- DEATH BENEFIT** - The plan provides 50% to the surviving spouse of the Accrued Benefit if active death occurs after attainment of age 55 or 20 years of service. For all other vested participants, 50% to the surviving spouse of a 50% Joint & Survivor benefit beginning no earlier than when the deceased participant would have attained age 55.
- FUNDING** - Members were required to contribute 4% of compensation for 2015. No contributions are required after Normal Retirement Date.

**Deposits**

At December 31, 2015, the Plan held no deposits.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 8 – AUTHORITY PENSION PLAN (Continued)**

**Investments**

The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The Plan's target asset allocation and long-term expected real rate of return for each asset class is as follows:

| <u>Asset Class</u>   | <u>Target Percentage</u> | <u>Expected Real<br/>Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic Equity      | 50.0%                    | 7.5%                                    |
| International Equity | 10.0%                    | 8.5%                                    |
| Domestic Bonds       | 22.5%                    | 2.5%                                    |
| Real Estate          | 17.5%                    | 4.5%                                    |

**Net Pension Liability**

The components of the net pension liability at December 31, 2015 are as follows:

|                             |                     |
|-----------------------------|---------------------|
| Total pension liability     | \$ 8,466,740        |
| Plan fiduciary net position | <u>6,696,871</u>    |
| Net pension liability       | <u>\$ 1,769,869</u> |

The total pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

**Actuarial assumptions:**

|                                       |  |
|---------------------------------------|--|
| Inflation:                            | 2.75%  |
| Salary increases:                     | 10% for the first 3 years and 4% thereafter  |
| Mortality:                            | RP-2000 Health Annuitant with full generational projections for future improvements by scale BB2D.   |
| Expected Long-Term<br>Rate of Return: | 7.35%, applied to all periods<br>The Authority selected this rate based on return expectations of its retirement Plan investment advisors and the investment allocation guidelines as described in the Plan's Investment Policy Statement. |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.35%.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 8 – AUTHORITY PENSION PLAN (Continued)**

The following shows the changes in the Total Pension Liability (TPL), the Plan Fiduciary Net Position (fair value of plan assets), and the Net Pension Liability (NPL) as of the Measurement date (12/31/2014):

|   | <b>Total Pension<br/>Liability<br/>( a )</b> | <b>Plan Fiduciary<br/>Net Position<br/>( b )</b> | <b>Net Pension<br/>Liability<br/>( c )</b> |
|---|--|--|--|
| <b>Balances at 12/31/14</b>                           | \$ 7,974,133                                 | \$ 6,398,433                                     | \$ 1,575,700                               |
| Changes for the year:                                 |  |  |  |
| Service cost  | 375,919                                      | -  | 375,919                                    |
| Interest  | 599,384                                      | -  | 599,384                                    |
| Changes of benefits                                   | -  | -  | -  |
| Changes of assumptions                                | -  | -  | -  |
| Differences between expected<br>and actual experience | (122,388)                                    | -  | (122,388)                                  |
| Contributions - employer                              | -  | 413,548  | (413,548)                                  |
| Contributions - employee                              | -  | 92,455   | (92,455)                                   |
| Net investment income                                 | -  | 152,743  | (152,743)                                  |
| Market value investment income                        | -  | -  | -  |
| Transfers   | -  | -  | -  |
| Benefit payments                                      | (360,308)                                    | (360,308)  | -  |
| Administrative expense                                | -  | -  | -  |
| Other changes   | -  | -  | -  |
| Net changes   | 492,607                                      | 298,438  | 194,169                                    |
| <b>Balances at 12/31/15</b>                           | <b>\$ 8,466,740</b>                          | <b>\$ 6,696,871</b>                              | <b>\$ 1,769,869</b>                        |

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. The following shows the sensitivity of the NPL to the discount rate with two additional measures, plus and minus one percent from the rate used for the disclosure.

|                             | <b>1% Decrease<br/>(6.35%)</b> | <b>Current<br/>Discount Rate<br/>(7.35%)</b> | <b>1% Increase<br/>(8.35%)</b> |
|-----------------------------|--------------------------------|--|--------------------------------|
| Total pension liability     | \$ 9,535,641                   | \$ 8,466,740                                 | \$ 7,569,379                   |
| Plan fiduciary net position | 6,696,871                      | 6,696,871                                    | 6,696,871                      |
| Net pension liability       | <b>\$ 2,838,770</b>            | <b>\$ 1,769,869</b>                          | <b>\$ 872,508</b>              |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – AUTHORITY PENSION PLAN (Continued)**

**Deferred Outflows and Deferred Inflows of Resources related to Pensions**

At December 31, 2015, the Plan reported the following deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

|  | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|--|---|--|
| Differences between expected and actual experience                               | \$ -  | \$ 113,045                                   |
| Changes of assumptions   | -   | -  |
| Net difference between projected and actual earnings on pension plan investments | 257,434                                       | -  |
| <b>TOTAL</b>   | <b>\$ 257,434</b>                             | <b>\$ 113,045</b>                            |

Amounts reported as deferred outflows of resources and deferred inflow of resources related to pensions will be recognized in pension expense as follows:

| <b>December 31,</b> |           |
|---------------------|-----------|
| 2016                | \$ 55,016 |
| 2017                | 55,016    |
| 2018                | 55,016    |
| 2019                | 55,014    |
| 2020                | (9,343)   |
| Thereafter          | (66,330)  |

**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

The Municipal Authority of the City of McKeesport provides post-employment medical benefits to eligible full-time non-bargaining employees and members covered under the Collective Bargaining Agreement between the Authority and the Utility Workers Union of America (AFL-CIO). Healthcare coverage that an employee has at the time of retirement will be paid at retirement, but no earlier than age 62. The healthcare coverage will cease at the employees age of 65. In calendar year 2014, two union retirees were receiving post-retirement health care benefits from the Authority. The Authority finances these benefits on a pay-as-you-go basis. Amounts paid for these benefits for the year ended December 31, 2014 were deemed immaterial.

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, 'Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions'. This statement provides the accounting and reporting requirements for benefit plans, as well as, requires that public sector employers accrue the cost of any postretirement healthcare or similar benefits (OPEB) they may offer to employees.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

Under GASB Statement No. 45, retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan.

The Annual OPEB and Net Pension Obligation for the years ending December 31, 2015 and December 31, 2014, and certain other required supplementary information as of January 1, 2015 is as follows:

|  | <u>2015</u>       | <u>2014</u>       |
|--|-------------------|-------------------|
| Normal Cost                                | \$ 179,943        | \$ 208,006        |
| Amortization of Unfunded Accrued Liability | <u>(47,352)</u>   | <u>(28,856)</u>   |
| Annual Required Contribution (ARC)         | \$ 132,591        | \$ 195,464        |
| Interest on Net OPEB Obligation            | 24,104            | 16,314            |
| Adjustments to ARC                         | -                 | -                 |
| Annual OPEB Cost                           | \$ 156,695        | \$ 195,464        |
| Contributions Made (Estimated)             | <u>-</u>          | <u>(718)</u>      |
| Estimated Increase in Net OPEB Obligation  | \$ 156,695        | \$ 194,746        |
| Net OPEB Obligation - January 1,           | <u>602,595</u>    | <u>407,849</u>    |
| Net OPEB Obligation - December 31,         | <u>\$ 759,290</u> | <u>\$ 602,595</u> |

**FUNDED STATUS AND FUNDING PROGRESS**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, as shown below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

|                                | (A)                             | (B)                               | (B-A)<br>(UAAL)                               | (A/B)           | (C)                | (B-A)/C                                 |
|--------------------------------|---------------------------------|-----------------------------------|---|-----------------|--------------------|---|
| ACTUARIAL<br>VALUATION<br>DATE | ACTUARIAL<br>VALUE OF<br>ASSETS | ACTUARIAL<br>ACCRUED<br>LIABILITY | UNFUNDED<br>ACTUARIAL<br>ACCRUED<br>LIABILITY | FUNDED<br>RATIO | COVERED<br>PAYROLL | UAAL AS A<br>% OF<br>COVERED<br>PAYROLL |
| 1/1/12                         | \$ -                            | \$ 931,894                        | \$ 931,894                                    | 0%              | \$ 2,028,488       | 45.90%                                  |
| 1/1/15                         | \$ -                            | \$ 883,003                        | \$ 883,003                                    | 0%              | \$ 2,546,260       | 34.70%                                  |



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**ACTUARIAL METHODS AND ASSUMPTIONS**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The January 1, 2015 actuarial valuation reports utilized the Entry Age Normal Cost Actuarial Cost Method. The UAAL is being amortized based on a level dollar, 20 year closed period resulting in an amortization factor of 17.14. The Discount Rate used was 4.0%. The health care cost trend rate which is 7.5% for 2015, decreases by approximately .5% to 4% in 2064 and thereafter.

A detail description of the provisions of the post-employment benefit plan is available in the GASB 45 actuarial valuation report as of January 1, 2015. The Net OPEB liability as of December 31, 2015 and 2014 is of \$759,290 and \$602,595 respectively is reflected as part of Noncurrent Liabilities in the financial statement of net position (Exhibit A).

**NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES**

**LEGAL MATTERS**

Several Authorities and/or Municipalities for which the Municipal Authority of the City of McKeesport provides sewage treatment service have threatened to file legal action against the Authority and/or the City of McKeesport to challenge the validity or legality of City of McKeesport Ordinance No. 12-20 which imposes a fee upon the Authority in the amount of \$1,000,000 (with annual % increases) for municipal services provide by the City of McKeesport to the Authority (See Note 11). Currently, only two of the referenced Authorities and/or Municipalities have initiated legal action regarding this matter and it would not appear that there would be any adverse action against the Authority as a result of this litigation.

In October of 2015, the Liberty Mutual Insurance Company filed an action against the Municipal Authority of the City of McKeesport seeking damages in excess of \$5,000,000. Liberty Mutual is the bonding company for one of the former contractors of the Authority who participated in the Authority's renovation to its sewage treatment facilities. The Authority denies all claims by Liberty Mutual and management is optimistic that the litigation will have a favorable outcome.

On December 11, 2014, the Allegheny County Health Department filed a 'notice of appeal' of the Municipal Authority of the City of McKeesport for alleged violations of the Pennsylvania Clean Streams Law, Health Department rules and regulations, and provisions of the NPDES permit issued to the Authority in April of 2008. The Allegheny County Health Department had forwarded a proposed Consent Assessment of Civil Penalty to the Authority in December of 2015 for \$140,750, however this demand for civil penalties was recently lowered by the Health Department in April of 2016 to \$50,000 with the provision that the Authority sign the Consent Assessment and pay this amount by May 31, 2016. In the event of noncompliance by the Authority, the Health Department will proceed with the litigation and seek civil penalties against the Authority in an amount that could approximate \$600,000. The accompanying financial statements do not include a provision or liability for any of the above referenced amounts.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

**PENNSYLVANIA SEWAGE FACILITIES ACT (ACT 537)**

Act 537 requires municipalities in Pennsylvania to develop and implement official sewage plans that address existing sewage disposal needs, account for future land development and provide for future sewage disposal needs. During 2009 and 2010, the Authority worked with the PA Department of Environmental Protection to develop its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. In 2011 fifteen separate contracts were awarded for construction projects related to these Plans. These Plans require significant new treatment processes, pumping stations and interceptor lines with an associated capital cost of approximately \$63 million.

To finance the project, the Authority has chosen to issue a series of bonds (see Note 4) at a rate of one per year, thereby enabling the Authority to step the necessary sewage rate increases over the next four to five years as opposed to a significant rate increase in any one year. In 2011 Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest. The award was issued only for Contract 2010-1 and 2010-2 which covers the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. All unused funds will be retained by PENNVEST. The other 13 contracts are financed by the previously mentioned bond issues. The project is 99% complete, just awaiting project close out, final payments, and then a complete system flow monitoring study to make sure the project achieves the 85% capture of combined sewer overflows.

**U.S. ARMY CORPS OF ENGINEERS (COE)**

The U.S. Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result, the federal government is funding the relocation of most of the CSO structures. Construction for Phase 1 of the project was completed in 2007. Phase II began in the second half of 2009 and was completed in the first half of 2011. The Evans Avenue Overflow Line is the only remaining line that needs to be raised, however, the COE do not have any funds allocated for this line at this time. The Authority now has new outfall structures that will greatly reduce the amount of river water that flows back through the pipes and into the sewer lines. This, in return, will reduce the costs associated with treating unnecessary water.

**NOTE 11 – OBLIGATIONS IMPOSED UPON THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT BY CITY OF MCKEESPORT ORDINANCE NO. 12-20, ENACTED OCTOBER 3, 2012, WITH AN EFFECTIVE DATE OF OCTOBER 6, 2012**

Pursuant to City of McKeesport Ordinance No. 12-20, enacted into law by the City of McKeesport on October 3, 2012, with an effective date of October 6, 2012, The Municipal Authority of the City of McKeesport is required to pay the City of McKeesport an Intergovernmental Agreement Fee in lieu of the normal property and revenue assessments and to compensate the City of McKeesport for all services and increased costs the location and expansion of the Authority's treatment plant have caused at a rate of \$1,000,000 per year and with The Municipal Authority of the City of McKeesport to enter into and execute a Cooperation Agreement with the City of McKeesport according to the terms approved by the Solicitor and Mayor of the City of McKeesport and specifically incorporating such Intergovernmental Agreement Fee.

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**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 11 – OBLIGATIONS IMPOSED UPON THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT BY CITY OF MCKEESPORT ORDINANCE NO. 12-20, ENACTED OCTOBER 3, 2012, WITH AN EFFECTIVE DATE OF OCTOBER 6, 2012 (Continued)**

Such Cooperation Agreement was thereafter prepared by the City of McKeesport; dated December 12, 2012; and entered into and executed by The Municipal Authority of the City of McKeesport. Such Cooperation Agreement requires The Municipal Authority of the City of McKeesport to pay on or before December 25<sup>th</sup> of each year a \$1,000,000 Intergovernmental Agreement Fee for the initial year and with such Authority payment to be increased by 1% for each year thereafter during the term of the Cooperation Agreement. In addition, the payment of this fee is specifically subordinated each year to the payment of all debt service obligations. Services include, but are not limited to: Drafting services for mapping system, Permits for sewer taps and relays, Engineering services, Procurement of right-of-ways and easements, Surveying services, Use of specialized equipment owned by City, Police, Fire, and Ambulance services, Electrical department services, and many other services rendered as stated in Agreement. The Authority paid the City of McKeesport an Intergovernmental Agreement Fee of \$1,030,301 and \$1,020,100 respectively for calendar years ended December 31, 2015 and 2014.

**NOTE 12 – PENDING GASB PRONOUNCEMENTS**

In February of 2015, the Government Accounting Standards Board (GASB) issued Statement No. 72, 'Fair Value Measurement and Application'. The primary objective of this Statement is to clarify the definition of fair value, establish general principles for measuring fair value and enhances disclosure about fair value measurements. The provisions of this Statement are effective for the Authority's December 31, 2016 financial statements.

In June of 2015, the GASB issued Statement No. 76, 'The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments'. The primary objective of this Statement is to reduce the Generally Accepted Accounting Principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The provisions of this Statement are effective for the Authority's December 31, 2016 financial statements.

**NOTE 13 – PRIOR PERIOD ADJUSTMENTS/RESTATEMENT OF NET POSITION**

Effective January 1, 2015, the Municipal Authority of the City of McKeesport implemented Government Accounting Standards Board (GASB) Statements No. 68, which require the accounting for unfunded pension liability for the Authority's pension plan (Note 8). Accordingly, the Authority's net position as of January 1, 2015 was restated as follows:

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 13 – PRIOR PERIOD ADJUSTMENTS/RESTATEMENT OF NET POSITION (Continued)**

|   |    |             |
|---|----|-------------|
| NET POSITION AS PREVIOUSLY REPORTED 12/31/14        | \$ | 15,442,934  |
| NET PENSION LIABILITY (Measurement Date 12/31/2014) |    | (1,575,700) |
| DEFERRED INFLOWS (Measurement Date 12/31/2014)      |    | -           |
| DEFERRED OUTFLOWS (Measurement Date 12/31/2014)     |    | -           |
|   |    | -           |
| TOTAL PRIOR PERIOD ADJUSTMENT                       |    | (1,575,700) |
| NET POSTION AS RESTATED JANUARY 1, 2015             | \$ | 13,867,234  |

In addition to the restatement of net position of (\$1,575,000) as explained above, the Authority updated the net historical cost value of its inventory of capital assets during calendar year 2015 as a result of substantial upgrades to its treatment plant facilities over the past several years. Based on information obtained from the Authority's contracted independent appraisal company, the results of that updated appraisal report resulted in a prior period adjustment of (\$22,615,001) to the net book value of the Authority's property, plant and equipment as of January 1, 2015.

**NOTE 14 – SUBSEQUENT EVENTS**

The Municipal Authority of the City of McKeesport Authority purchased the Port Vue Collection system in April of 2016 for \$1,400,000 with an upfront payment of \$300,000 due at closing and ten annual payments of \$110,000 through 2026. The Authority will now be responsible for billing the Port Vue customers and collecting the payments directly, and also to maintain the collection system, which includes both sanitary and storm lines and one pump station.

Management has determined that there are no additional events subsequent to December 31, 2015 through the date of the 'Independent Auditor's Report' date, which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

***REQUIRED  
SUPPLEMENTARY  
INFORMATION***

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

|   | <b>2015</b>                |
|---|----------------------------|
| <b>Total Pension Liability-Beginning</b>                                  | <b>\$ 7,974,133</b>        |
| Service Cost  | 375,919                    |
| Interest  | 599,384                    |
| Changes of Benefit Terms  | -                          |
| Differences Between Expected and Actual Experience                        | (122,388)                  |
| Changes of Assumptions  | -                          |
| Benefit payments, including Refunds of Members Contributions              | (360,308)                  |
| <b>Net Change in Total Pension Liability</b>                              | <b><u>\$ 492,607</u></b>   |
| <b>Total Pension Liability-Ending</b>                                     | <b><u>\$ 8,466,740</u></b> |
| <br>  |                            |
| <b>Plan Fiduciary Net Position-Beginning</b>                              | <b>\$ 6,398,433</b>        |
| Contributions-employer  | 413,548                    |
| Contributions-employee  | 92,455                     |
| Net Investment Income   | 152,743                    |
| Benefit payments, including Refunds of Employee Contributions             | (360,308)                  |
| Administrative Expense  | -                          |
| Other   | -                          |
| <b>Change in Plan Fiduciary Net Position</b>                              | <b><u>\$ 298,438</u></b>   |
| <br>  |                            |
| <b>Plan Fiduciary Net Position-Ending</b>                                 | <b><u>\$ 6,696,871</u></b> |
| <br>  |                            |
| <b>Net Pension Liability-Ending</b>                                       | <b><u>\$ 1,769,869</u></b> |
| <br>  |                            |
| <b>RATIOS:</b>  |                            |
| Plan Fiduciary Net Position as a<br>Percentage of Total Pension Liability | 79.10%                     |
| <br>  |                            |
| Covered-employee Payroll  | \$ 2,434,978               |
| <br>  |                            |
| Net Pension Liability as a Percentage<br>of Covered-employee Payroll      | 72.69%                     |

NOTE: Schedule requires information for past 10 calendar years. Most recent actuarial valuation presents information for calendar year 2015 only.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT  
SCHEDULE OF ACTUARILLY DETERMINED PENSION CONTRIBUTION AND RELATED  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

|   | <u>12/31/2015</u> | <u>12/31/2014</u> | <u>12/31/2013</u> | <u>12/31/2012</u> | <u>12/31/2011</u>  |
|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| Actuarially Determined Contribution                       | \$ 473,618        | \$ 355,796        | \$ 341,096        | \$ 309,525        | \$ 220,395         |
| Contributions   | <u>413,548</u>    | <u>355,796</u>    | <u>341,096</u>    | <u>309,525</u>    | <u>318,960</u>     |
| Contribution Deficiency (Excess)                          | <u>\$ 60,070</u>  | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ (98,565)</u> |
| <b>RATIOS:</b>  |                   |                   |                   |                   |                    |
| Covered-employee Payroll                                  | \$ 2,434,978      | \$ 2,449,452      | \$ 2,487,363      | \$ 2,408,246      | \$ 2,061,313       |
| Contributions as a Percentage of Covered-employee Payroll | 16.98%            | 14.53%            | 13.71%            | 12.85%            | 15.47%             |
|   | <u>12/31/2010</u> | <u>12/31/2009</u> | <u>12/31/2008</u> | <u>12/31/2007</u> | <u>12/31/2006</u>  |
| Actuarially Determined Contribution                       | \$ 40,052         | \$ 17,202         | \$ 7,166          | \$ 83,326         | \$ 98,910          |
| Contributions   | <u>40,052</u>     | <u>17,202</u>     | <u>7,166</u>      | <u>83,326</u>     | <u>107,884</u>     |
| Contribution Deficiency (Excess)                          | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ (8,974)</u>  |
| <b>RATIOS:</b>  |                   |                   |                   |                   |                    |
| Covered-employee Payroll                                  | \$ 1,788,071      | \$ 1,442,870      | \$ 1,318,212      | \$ 971,660        | \$ 1,063,399       |
| Contributions as a Percentage of Covered-employee Payroll | 2.24%             | 1.19%             | 0.54%             | 8.58%             | 10.15%             |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**SCHEDULE OF FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

| <u>ACTUARIAL<br/>VALUATION<br/>DATE</u> | <u>ACTUARIAL<br/>VALUE<br/>OF ASSETS</u> | <u>ACTUARIAL<br/>ACCRUED<br/>LIABILITY</u> | <u>UNFUNDED<br/>ACTUARIAL<br/>ACCRUED<br/>LIABILITY</u> | <u>FUNDED<br/>RATIO</u> | <u>COVERED<br/>PAYROLL</u> | <u>UAAL AS<br/>A % OF<br/>COVERED<br/>PAYROLL</u> |
|---|--|--|---|-------------------------|----------------------------|---|
| 1/1/2013                                | \$ 4,469,879                             | \$ 6,843,691                               | \$ 2,373,812  | 65.0%                   | \$2,551,011                | 93.1%   |
| 1/1/2015                                | 5,852,268                                | 7,836,039                                  | 1,983,771   | 75.0%                   | 2,591,874                  | 76.5%   |



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Unless otherwise specified, the following actuarial methods and assumptions were used in the calculation of actuarially determined contributions reported in the required supplementary schedules:

Actuarial Valuation Date - January 1, 2015  
Actuarial cost method: Entry Age Normal  
Amortization method: Level Dollar Closed  
Remaining amortization period: 4-20  
Asset valuation method: 4-year smoothing  
Inflation: 2.75%  
Salary increases: 10% for the first 3 years and 4% thereafter  
Investment rate of return: 7.5% per annum, gross return  
Mortality: Pre-retirement - none assumed  
          Post-retirement - RP-2000 Health Annuitant with full  
                                  generational projections for future improvement by  
                                  scale BB2D.  
          Post-disablement - RP-2000 Disability Table  
Retirement Age: Later of age 62 with 10 years of service or January 1, 2016

**Changes to Benefits**

Effective March 1, 2007, certain retirees were granted a one-time cost-of-living increase to their pension.

Effective January 1, 2008, the benefit formula was improved by eliminating the "Accrued Benefit Adjustment" and increasing the accrual over 20 years from 1% to 2% (and thus increasing the maximum accrual from 65% to 80%).

Effective June 23, 2009, the pre-retirement death benefit was expanded to provide either an immediate or deferred annuity to the surviving spouse of a vested participant.

**Changes to Assumptions**

Effective January 1, 2007, the valuation interest rate was raised from 7.5% to 8.0%.

Effective January 1, 2008, a provision was added to increase employee contributions from a flat 2.5% up to 2.75% or 3.00% depending on the MMO for the year.

Effective January 1, 2009, the mortality assumption was updated from 1983 GAM to RP-2000 by Scale AA. The asset valuation method was changed from market value to a five-year average of investment gains/losses with an 80%/120% corridor around market value. The Authority elected to extend the corridor to 70%/130% for the 1/1/2009 valuation as permitted by Act 44 of 2009.

Effective January 1, 2013, the mortality assumption was changed from static to full generational in order to anticipate future mortality improvements.

Effective January 1, 2014, the employee contribution rate was increased from 3.0% to 3.5%, and the Late Retirement benefit was changed to the accrued benefit under the Plan's formula without any other adjustment.

Fall 2014: As level 2 Distressed Municipality (as defined in Act 205) the Authority elected the "Amortization Contributions Reduction Remedy" whereby they may deposit less than the full Minimum Municipal Obligation (MMO) for years 2015, 2016, and 2017.

Effective January 1, 2015, the employee contribution rate was increased from 3.5% to 4.0%.

Effective January 1, 2015, the projected mortality improvement assumptions was updated, the salary increase assumption was decreased to better reflect anticipated future pay increases, and the investment return assumption was lowered to 7.50% to better reflect future return on plan assets.

***SUPPLEMENTARY  
INFORMATION***

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF DETAIL OPERATING EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31,**

|  | <u>2015</u>                | <u>2014</u>                |
|--|----------------------------|----------------------------|
| <b><u>PERSONNEL COSTS</u></b>                  |                            |                            |
| Plant Salaries                                 | \$ 1,944,197               | \$ 1,898,677               |
| Administrative Salaries                        | 615,062                    | 692,021                    |
| Payroll Taxes                                  | 194,555                    | 198,702                    |
| Pension  | 463,318                    | 352,176                    |
| Employee Benefits                              | 909,276                    | 882,403                    |
| <b>TOTAL PERSONNEL</b>                         | <b><u>\$ 4,126,408</u></b> | <b><u>\$ 4,023,979</u></b> |
| <b><u>PROFESSIONAL SERVICES</u></b>            |                            |                            |
| Engineering (Net of COE Reimbursements)        | \$ 49,971                  | \$ 25,510                  |
| Audit  | 6,845                      | 6,500                      |
| Legal  | 175,157                    | 144,051                    |
| Accounting                                     | 5,721                      | 4,800                      |
| Pension Services                               | 27,244                     | 31,370                     |
| Payroll Services                               | 7,119                      | 7,230                      |
| Miscellaneous Professional Services            | 56,702                     | 36,031                     |
| <b>TOTAL PROFESSIONAL SERVICES</b>             | <b><u>\$ 328,759</u></b>   | <b><u>\$ 255,492</u></b>   |
| <b><u>SEWAGE PLANT COSTS</u></b>               |                            |                            |
| Utilities                                      | \$ 732,188                 | \$ 542,529                 |
| Repair and Maintenance                         | 238,540                    | 226,992                    |
| Lease Rental Expense                           | 260,192                    | 312,491                    |
| Chemicals                                      | 60,011                     | 67,601                     |
| Lab Supplies and Analysis                      | 50,940                     | 48,900                     |
| Safety Program                                 | 40,476                     | 11,598                     |
| Vehicle Expense                                | 97,810                     | 87,769                     |
| Sludge Hauling                                 | 157,232                    | 250,830                    |
| Computers                                      | 35,274                     | 45,401                     |
| Uniforms                                       | 11,772                     | 9,767                      |
| CSO Study                                      | 89,510                     | 73,480                     |
| Miscellaneous                                  | 15,211                     | 9,909                      |
| <b>TOTAL SEWAGE PLANT COSTS</b>                | <b><u>\$ 1,789,156</u></b> | <b><u>\$ 1,687,267</u></b> |
| <b><u>OTHER GENERAL AND ADMINISTRATIVE</u></b> |                            |                            |
| Insurance                                      | \$ 114,808                 | \$ 115,143                 |
| Office Supplies                                | 16,519                     | 3,396                      |
| Telephone                                      | 37,700                     | 33,722                     |
| Billing and Collecting                         | 160,321                    | 117,813                    |
| Travel and Education                           | 19,081                     | 14,061                     |
| Advertising                                    | 3,099                      | 184                        |
| Bond and Asset Management Fees                 | 3,218                      | 39,341                     |
| Permits/Dues/Fees                              | 18,566                     | 16,430                     |
| Miscellaneous                                  | 18,728                     | 35,356                     |
| <b>TOTAL OTHER GENERAL AND ADMINISTRATIVE</b>  | <b><u>\$ 392,040</u></b>   | <b><u>\$ 375,446</u></b>   |
| <b><u>BAD DEBT EXPENSE</u></b>                 | <b><u>\$ 230,865</u></b>   | <b><u>\$ 287,214</u></b>   |
| <b><u>DEPRECIATION</u></b>                     | <b><u>\$ 2,368,937</u></b> | <b><u>\$ 1,323,547</u></b> |
| <b>TOTAL OPERATING EXPENSES</b>                | <b><u>\$ 9,236,165</u></b> | <b><u>\$ 7,952,945</u></b> |

The accompanying notes are an integral part of these financial statements