

Monroeville Municipal Authority

Financial Statements and Required Supplementary and Supplementary Information

For the Years Ended December 31, 2017 and 2016
with Independent Auditor's Report

MaherDuessel

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MONROEVILLE MUNICIPAL AUTHORITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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Independent Auditor's Report

Board of Directors Monroeville Municipal Authority

We have audited the accompanying financial statements of the Monroeville Municipal Authority (Authority), a component unit of the Municipality of Monroeville, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority'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

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2017 and 2016, and the respective changes in

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information, and other post-employment benefits information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The supplementary schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
April 26, 2018

**Monroeville Municipal Authority
Management's Discussion and Analysis
December 31, 2017**

The Monroeville Municipal Authority (Authority) presents the following Annual Financial Statements developed in compliance with Governmental Accounting Standards Board Statement No. 34.

History of the Organization

On October 10, 1949, articles of incorporation were approved by the Deputy Secretary of the Commonwealth of Pennsylvania for the formation of the Patton Township Municipal Authority to serve as the water supply entity for Patton Township. The first meeting of the newly formed Authority was held on October 18, 1949, with the following Board of Directors present: Joseph Berkley, Charles L. Fox, Forrest Leddon, William O. Rook, and Clair J. Stephens. The original service area extended from the existing municipal building, south along Monroeville Road and James Street to their intersections with Ohio Street.

The 1950s and 1960s brought major changes to the Authority as development in the Municipality of Monroeville (Municipality) began to boom. A 1,500,000 gallon storage tank was built on Center Road in the early 50s. In the late 50s and early 60s, twin 1,000,000 gallon elevated storage tanks located on Foxwood and Illini Drives and the Haymaker Road Pump Station were built.

On June 23, 1959, the Authority's name was changed to Monroeville Water Authority. Also that year, the main pump station and general office building were constructed on Old William Penn Highway. As the Municipality continued to grow, a 10,000,000 gallon tank was built in Boyce Park.

In 2002, the Authority took ownership and operational responsibility for the Municipality's sanitary sewer system. The Authority's name was then changed to Monroeville Municipal Authority.

Overview of Annual Financial Report

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data and key financial and operational indicators used in the Authority's strategic plan, budget, bond indentures, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to financial statements.

The statement of net position presents the financial position of the Authority on a full accrual historical cost basis. The statement of net position presents information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Authority is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the

results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All 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. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

Supplementary information contained after the notes provides required disclosures related to the pension plan and other post-employment benefits as well as a comparison of budget to actual activity.

The financial statements were derived from the detailed books and records of the Authority. The financial statements were audited and adjusted, if material, during the independent external audit process.

Facilities

The Authority owns and operates the water distribution and sanitary sewer collection systems for the Municipality. The water distribution system consists of approximately 150 miles of various size waterlines, four storage tanks (13,500,000 gallons), and two pumping stations. The water system serves 9,500 customers. The sanitary sewer collection system consists of approximately 200 miles of sewer lines and five pumping stations. The sewer system serves 10,500 customers.

Operations

Operating revenues were \$18.0 million for the fiscal period ending December 31, 2017, an increase from the fiscal year ending December 31, 2016, in the amount of approximately \$0.23 million, or 1.3%. Total operating revenues were in line with budget projections for 2017.

Operating expenses for the fiscal year ended December 31, 2017 increased about 0.2% from fiscal year 2016 and were \$535,000 over budget. Approximately \$1.33 million of these expenses were related to depreciation expense.

Tap-in fees were \$84,525 in 2017, an increase of \$70,325, or approximately 495%, compared to fiscal year 2016.

Debt

The outstanding debt of the Authority consists of four Bond Issues: The Series B of 2011 Sewer Revenue Bonds, maturing December 1, 2022 with a principal balance of \$6,420,000; the 2012 Sewer Revenue Bonds, maturing December 1, 2022 with a principal balance of \$775,000; 2014 Water Revenue Bonds (issued August 26, 2014) maturing December 1, 2021 with a principal balance of \$4,505,000; and 2015 Sewer Revenue Bonds, maturing December 1, 2027 with a principal balance of \$8,380,000. Two Bond Issues matured on December 1, 2017: The Series A of 2008 Water Revenue Bonds and the Series B of

2008 Sewer Revenue Bonds.

Financial Condition

The Authority's financial condition remained strong at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net position. The current financial condition, technical support staff capabilities, and operating and expansion plans to meet anticipated customer needs, are well balanced and under control.

The following are the condensed statements of net position for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
<u>Assets and Deferred Outflows of Resources</u>		
Assets:		
Total current assets	\$ 10,544,526	\$ 8,484,122
Total capital assets	39,714,582	39,337,949
Restricted assets and other assets	<u>7,738,003</u>	<u>8,969,384</u>
Total Assets	<u>57,997,111</u>	<u>56,791,455</u>
Deferred Outflows of Resources:		
Deferred loss on refunding	872,604	996,894
Related to pensions	<u>862,895</u>	<u>1,202,812</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 59,732,610</u>	<u>\$ 58,991,161</u>
<u>Liabilities and Net Position</u>		
Liabilities:		
Current liabilities	\$ 4,898,707	\$ 4,695,830
Long-term liabilities	<u>20,304,974</u>	<u>25,000,070</u>
Total Liabilities	<u>25,203,681</u>	<u>29,695,900</u>
Deferred Inflows of Resources:		
Related to pension	<u>1,384,457</u>	<u>247,890</u>
Net Position:		
Net investment in capital assets	23,440,423	21,564,362
Restricted for capital activity and debt service	4,115,933	4,017,777
Unrestricted	<u>5,588,116</u>	<u>3,465,232</u>
Total Net Position	<u>33,144,472</u>	<u>29,047,371</u>
Total Liabilities and Net Position	<u>\$ 59,732,610</u>	<u>\$ 58,991,161</u>

Total net position increased \$4.10 million from 2016 as a result of rate increases for sewer services, helping the Authority to obtain a significant operating income.

The following are the condensed statements of net position for the years ended December 31, 2016 and 2015:

	2016	2015
Assets and Deferred Outflows of Resources		
Assets:		
Total current assets	\$ 8,484,122	\$ 7,963,461
Total capital assets	39,337,949	38,528,677
Restricted assets and other assets	8,969,384	10,549,026
Total Assets	56,791,455	57,041,164
Deferred Outflows of Resources:		
Deferred loss on refunding	996,894	1,121,184
Related to pensions	1,202,812	627,406
Total Assets and Deferred Outflows of Resources	\$ 58,991,161	\$ 58,789,754
Liabilities and Net Position		
Liabilities:		
Current liabilities	\$ 4,695,830	\$ 5,611,610
Long-term liabilities	25,000,070	27,438,699
Total Liabilities	29,695,900	33,050,309
Deferred Inflows of Resources:		
Related to pension	247,890	111,877
Net Position:		
Net investment in capital assets	21,564,362	19,609,156
Restricted for capital activity and debt service	4,017,777	3,844,866
Unrestricted	3,465,232	2,173,546
Total Net Position	29,047,371	25,627,568
Total Liabilities and Net Position	\$ 58,991,161	\$ 58,789,754

Total net position increased \$3.42 million from 2015 as a result of rate increases for sewer services, helping the Authority to obtain a significant operating income.

Results of Operations

Operating Revenues

Revenue from operations is derived from two (2) categories of service: water and sewer service. Additionally, the Authority receives ancillary charges for tap-in fees and penalties and charges for various billed services.

The following table denotes the revenues received from the various services provided for the years ended December 31, 2017 and 2016 and further illustrates the increase in operating income as a result of the 2017 rate increases for sewer services:

	<u>2017</u>	<u>2016</u>
Water Service:		
Water sales	\$ 4,824,382	\$ 4,949,361
Fire protection fees	422,391	420,425
Jobbing sales	33,299	70,881
Tap-in fees	9,600	14,200
Other	235,792	212,468
	<u>5,525,464</u>	<u>5,667,335</u>
Sewer Service:		
Sewage fees	12,020,225	11,678,099
Jobbing sales	855	338
Tap-in fees	74,925	-
Other	424,608	398,249
	<u>12,520,613</u>	<u>12,076,686</u>
Total operating revenues, including tap-in fees	<u>\$ 18,046,077</u>	<u>\$ 17,744,021</u>

The following table denotes the revenues received from the various services provided for the years ended December 31, 2016 and 2015 and further illustrates the increase in operating income as a result of the 2016 rate increases for sewer services:

	<u>2016</u>	<u>2015</u>
Water Service:		
Water sales	\$ 4,949,361	\$ 5,106,318
Fire protection fees	420,425	419,189
Jobbing sales	70,881	122,968
Tap-in fees	14,200	38,910
Other	212,468	213,581
	<u>5,667,335</u>	<u>5,900,966</u>
Sewer Service:		
Sewage fees	11,678,099	10,515,394
Jobbing sales	338	1,099
Tap-in fees	-	28,525
Other	398,249	385,342
	<u>12,076,686</u>	<u>10,930,360</u>
Total operating revenues, including tap-in fees	<u>\$ 17,744,021</u>	<u>\$ 16,831,326</u>

Fees, Subsidies, and Other

The Authority receives tap-in fees primarily from new development as they access the Authority's system. Also, in the current year the Authority received contribution revenue from PennDOT in the form of a donated sewer line and water line construction costs for which PennDOT reimbursed the Authority.

Expenses

The Authority operates and maintains a potable water treatment and delivery system and a wastewater collection system.

Total operating expenses of the Authority for 2017 of approximately \$13.55 million represents an increase of 0.2% from fiscal year 2016.

In the bond indentures, the Authority covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Authority, together with other income, that will yield annual net earnings for the fiscal year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments for all bonds outstanding. Net earnings is defined by the bond indenture to mean, for the period in question, the net operating income of the system determined in accordance with accounting principles generally accepted in the United States of America, adding back depreciation and OPEB and including interest income not restricted to bond construction, and cash capital contributions not received by way of government grants.

The rate covenant in the bond indenture obligates the Authority to review rates not less than once a year and to revise such rates and charges as necessary to meet the coverage test. The Authority further covenants in the bond indenture that it will maintain rates and charges that are at all times sufficient to provide for the payment of the bonds; to maintain the debt service funds, debt service reserve funds and any other related funding instruments related to the debt of the system; and to provide for the payment of administrative and operational expenses of the system, preserving the system in good repair and working order. Water and sewer revenue bond debt service coverage for 2017 was 600% and 258%, respectively.

Cash Flow Activity

The following tables depict the Authority's ability to generate net operating cash.

Net cash provided by operating activities (excludes tap-in fees) is shown both in total dollars and as a percentage of operating revenues as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Total operating revenues	\$ 17,961,552	\$ 17,729,821	\$ 231,731
Net cash provided by operations	5,209,366	4,680,487	528,879
Net operating cash as a percentage of operating revenues	<u>29%</u>	<u>26%</u>	
Principal payments on debt	\$ 2,810,000	\$ 2,845,000	

Net cash provided by operating activities (excludes tap-in fees) is shown both in total dollars and as a percentage of operating revenues as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Total operating revenues	\$ 17,729,821	\$ 16,763,891	\$ 965,930
Net cash provided by operations	4,680,487	5,231,730	(551,243)
Net operating cash as a percentage of operating revenues	<u>26%</u>	<u>31%</u>	
Principal payments on debt	\$ 2,845,000	\$ 2,820,000	

Capital Assets and Debt Administration

Total capital assets increased \$376,633 during 2017, with the majority of the expenditures relating to the installation of sewer lines and water lines and the purchase of heavy equipment and vehicles.

Contacting the Authority

Our financial report is designed to provide our customers with a general overview of the Authority's finances and to show the Board accountability for the money it receives. If you have any questions about this report or wish to request additional information, please contact Mr. Jim Hunter, General Manager of Monroeville Municipal Authority, 219 Speelman Lane, Monroeville, PA 15146, (412) 372-2677.

MONROEVILLE MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
Assets:			Liabilities:		
Current assets:			Current liabilities:		
Cash and cash equivalents:			Accounts payable - operating expenses	\$ 1,606,848	\$ 1,458,206
Operating	\$ 4,141,170	\$ 2,668,038	Accrued payroll and taxes	51,946	40,120
Accounts receivable:			Bonds payable - current portion	<u>2,880,000</u>	<u>2,810,000</u>
Water and sewage	2,518,723	2,075,643			
Prepaid expenses	182,411	162,891	Total current liabilities	<u>4,538,794</u>	<u>4,308,326</u>
Inventory of materials and supplies	20,227	10,221			
Investments	<u>3,681,995</u>	<u>3,567,329</u>	Current liabilities (payable from restricted assets):		
Total current assets	<u>10,544,526</u>	<u>8,484,122</u>	Accrued interest on bonds	46,340	76,830
			Customer deposits	<u>313,573</u>	<u>310,674</u>
Capital assets:			Total current liabilities		
Water system	21,774,650	21,162,043	(payable from restricted assets)	<u>359,913</u>	<u>387,504</u>
Sewer system	15,349,182	15,011,926			
Buildings and improvements	13,197,689	13,008,260	Long-term liabilities:		
Heavy equipment	3,779,471	3,366,531	Net pension liability	279,611	1,898,098
Office furniture and equipment	1,022,450	1,019,122	Accrued OPEB liability	2,667,946	2,748,891
Vehicles	2,005,978	2,024,872	Bonds payable	17,200,000	20,080,000
Less accumulated depreciation	(18,204,896)	(17,006,210)	Unamortized premium	<u>157,417</u>	<u>273,081</u>
Construction in progress	38,653	-	Total long-term liabilities	<u>20,304,974</u>	<u>25,000,070</u>
Land	<u>751,405</u>	<u>751,405</u>			
Total capital assets	<u>39,714,582</u>	<u>39,337,949</u>	Total Liabilities	<u>25,203,681</u>	<u>29,695,900</u>
Restricted assets:			Deferred Inflows of Resources:		
Cash and investments:			Related to pensions	<u>1,384,457</u>	<u>247,890</u>
Construction funds	2,927,785	4,201,217			
Debt service fund	626,636	582,175			
Debt service reserve fund	3,496,194	3,470,840			
Funds held in escrow	353,016	352,266			
Other assets:					
Unamortized prepaid bond insurance	162,869	191,383			
Line extensions receivable	<u>171,503</u>	<u>171,503</u>			
Total restricted assets and other assets	<u>7,738,003</u>	<u>8,969,384</u>			
Total Assets	<u>57,997,111</u>	<u>56,791,455</u>			
			Net Position:		
Deferred Outflows of Resources:			Net investment in capital assets	23,440,423	21,564,362
Deferred loss on refunding	872,604	996,894	Restricted for capital activity and debt service	4,115,933	4,017,777
Related to pensions	<u>862,895</u>	<u>1,202,812</u>	Unrestricted	<u>5,588,116</u>	<u>3,465,232</u>
Total deferred outflows of resources	<u>1,735,499</u>	<u>2,199,706</u>	Total Net Position	<u>33,144,472</u>	<u>29,047,371</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 59,732,610</u>	<u>\$ 58,991,161</u>	Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 59,732,610</u>	<u>\$ 58,991,161</u>

See accompanying notes to financial statements.

MONROEVILLE MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating Revenues:		
Water revenues:		
Water sales	\$ 4,824,382	\$ 4,949,361
Fire protection sales	422,391	420,425
Jobbing sales	33,299	70,881
Miscellaneous	235,792	212,468
Total water revenues	5,515,864	5,653,135
Sewer revenues:		
Sewage fees	12,020,225	11,678,099
Jobbing sales	855	338
Miscellaneous	424,608	398,249
Total sewer revenues	12,445,688	12,076,686
Total operating revenues	17,961,552	17,729,821
Operating Expenses:		
Water expenses:		
Water purchases	1,236,010	1,328,911
Power and pumping	45,255	79,537
Vehicle expense	53,092	50,086
System maintenance	821,898	777,806
General and administrative	1,393,549	1,491,584
Jobbing and tapping	-	1,133
Authority Board expenses	8,000	8,618
Depreciation	994,624	956,911
Total water expenses	4,552,428	4,694,586
Sewer expenses:		
Sewer expenses	6,250,706	6,108,495
Power and pumping	4,866	2,632
Vehicle expense	60,137	59,708
System maintenance	854,260	720,577
General and administrative	1,484,226	1,624,180
Authority Board expenses	8,000	8,618
Depreciation	332,484	307,250
Total sewer expenses	8,994,679	8,831,460
Total operating expenses	13,547,107	13,526,046
Operating Income	4,414,445	4,203,775

(Continued)

See accompanying notes to financial statements.

MONROEVILLE MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Continued)

	2017	2016
Nonoperating Revenues:		
Interest income - water	34,917	10,552
Interest income - sewer	34,917	10,631
Total nonoperating revenues	69,834	21,183
Capital Contributions:		
Developer contribution revenue - water	12,464	15,548
Developer contribution revenue - sewer	118,260	-
Tap-in fees - water	9,600	14,200
Tap-in fees - sewer	74,925	-
Total capital contributions	215,249	29,748
Nonoperating Expenses:		
Interest on bonds - water	16,128	162,205
Interest on bonds - sewer	569,039	619,547
Other expenses	-	35,890
Amortization of prepaid bond insurance costs - water	6,845	6,845
Amortization of prepaid bond insurance costs - sewer	10,415	10,416
Total nonoperating expenses	602,427	834,903
Change in Net Position	4,097,101	3,419,803
Net Position:		
Beginning of year	29,047,371	25,627,568
End of year	\$ 33,144,472	\$ 29,047,371

(Concluded)

See accompanying notes to financial statements.

MONROEVILLE MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Cash received from customers	\$ 17,521,371	\$ 17,708,795
Cash payments to employees for services	(1,857,017)	(1,634,027)
Cash payments to suppliers for goods and services	(10,454,988)	(11,394,281)
Net cash provided by (used in) operating activities	5,209,366	4,680,487
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(1,580,758)	(2,057,885)
Principal payments on bonds	(2,810,000)	(2,845,000)
Interest payments on bonds	(595,777)	(761,873)
Reimbursements	7,741	-
Tap-in fees received and other	84,525	(21,690)
Net cash provided by (used for) capital and related financing activities	(4,894,269)	(5,686,448)
Cash Flows From Investing Activities:		
Interest earnings	69,834	21,183
Purchase of investment securities	(114,666)	(1,059,695)
Net cash provided by (used in) investing activities	(44,832)	(1,038,512)
Increase (Decrease) in Cash and Cash Equivalents	270,265	(2,044,473)
Cash and Cash Equivalents:		
Beginning of year, including \$8,606,498 and \$10,096,039, respectively, in restricted accounts	11,274,536	13,319,009
End of year, including \$7,403,631, and \$8,606,498, respectively, in restricted accounts	\$ 11,544,801	\$ 11,274,536
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 4,414,445	\$ 4,203,775
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	1,327,108	1,264,161
Amortization of connection costs	-	70,400
Change in OPEB liability	(80,945)	(226,092)
Minimum Municipal Obligation contribution	(563,712)	(458,088)
Pension expense	421,709	731,820
Change in operating assets and liabilities:		
Accounts receivable	(443,080)	(29,311)
Accounts payable and accrued expenses	160,468	(889,065)
Prepays	(19,520)	(79,398)
Customer deposits	2,899	8,285
Inventory	(10,006)	84,000
Net adjustments	794,921	476,712
Net cash provided by (used in) operating activities	\$ 5,209,366	\$ 4,680,487
Noncash Investing, Capital, and Financing Activities:		
Developer capital contributions	\$ 122,983	\$ 15,548

See accompanying notes to financial statements.

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Summary of Significant Accounting Policies

Organization

The Monroeville Water Authority was incorporated in 1949 under the Municipal Authorities Act of 1945, as amended, for the purpose of acquiring, holding, constructing, improving, maintaining, owning, operating, and leasing a water utility system to serve the residents of the Municipality of Monroeville (Municipality). The Monroeville Water Authority amended its name to the Monroeville Municipal Authority (Authority) on June 21, 2002.

On July 31, 2002, the Municipality conveyed to the Authority for the net total of \$9,500,000 its full legal and equitable right, title, and interest in and to all projects and property, whether real, personal, intellectual, or intangible, together with the rights to construct, operate, and maintain the sanitary sewer plant(s) and sanitary tributary system within the Municipality and further appurtenant municipalities.

Financial Reporting Entity

The Authority is considered a component unit of the Municipality due to the Municipality's selection of the governing body of the Authority and the Municipality's accountability for Authority fiscal matters.

Basis of Accounting and Measurement Focus

The Authority prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Accordingly, the Authority's accounts are reported as an Enterprise Fund using the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operation of the Authority. Operating revenues consist primarily of user charges. Non-operating revenues and expenses consist of those revenues and expenses that are related to the financing and investing types of activities.

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair value. The change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Further, the Authority categorizes its fair value measurements within the fair value hierarchy set by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Receivables

Accounts receivable includes an estimate of water and sewer services provided to customers subsequent to the most recent meter readings that have not yet been billed.

No provision is made for uncollectible accounts or assessment receivables as these charges are lienable charges to the property served. Any other charges that become uncollectible are charged to expense in the year they become uncollectible.

Tap-In Fees

Tap-in fees are a one-time charge billed to customers who are connecting to the existing system. Tap-in fees are imposed non-exchange transactions that are recorded as a capital contribution.

Restricted Assets

Restricted assets are primarily based on certain bond indentures of trust, which require the Authority to establish and maintain prescribed amounts of resources that can be used only to service outstanding debt or make capital improvements. Other restricted assets relate to escrowed funds.

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FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Inventory

Inventory is stated at the lower of cost or market and consists primarily of materials, supplies, and chemicals.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the statements of net position report a separate section for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements represent a consumption (acquisition) of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until then. The Authority has two items that qualify for reporting in these categories:

The deferred refunding loss related to various revenue bonds is reported as a deferred outflow of resources. The deferred refunding loss is being amortized on a straight-line basis over the term of the issues, which is not materially different from the effective interest method.

In conjunction with pension accounting requirements, certain elements are recorded as deferred outflows (inflows) of resources related to pensions on the financial statements. These amounts are determined based on actuarial valuations performed for the pension plan. Note 6 presents additional information about the pension plan.

Unamortized Premium and Prepaid Bond Insurance

The unamortized premium and unamortized prepaid bond insurance related to various bond issues are reported as other assets and long-term liabilities, respectively, on the statements of net position. These items are being amortized on a straight-line basis over the term of the issues, which is not materially different from the effective interest method.

Capital Assets

Property, plant, and equipment in service and construction in progress are recorded at cost or estimated historical cost. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, when available, or engineers' estimated fair market value or cost to construct at the date of contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value. Internal engineering costs are capitalized to

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FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

the extent of direct support and contribution to construction and expansion projects. Costs of studies that result in specific construction projects are capitalized.

Maintenance and repairs, which do not significantly extend the value or life of property, plant, and equipment, are expensed as incurred.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Water lines	80
Sewer lines	80
Building and improvement	50
Vehicles	5-10
Software/computers	3-5
Office furniture and equipment	5-10
Machinery and equipment	10-20

Risks and Uncertainties

Financial instruments, which potentially expose the Authority to concentrations of credit risk, include cash and investments in marketable securities. Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Investment securities are also exposed to various other risks such as interest rate and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such change could materially affect the amount reported on the statements of net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Net Position

Net position is required to be reported in three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.
- Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. The Authority had restricted net position of \$4,115,933 and \$4,017,777 at December 31, 2017 and 2016, respectively, restricted for capital activity and debt service.
- Unrestricted – This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Adopted Pronouncement

The requirements of the following Governmental Accounting Standards Board (GASB) Statement were adopted for the financial statements:

GASB Statement No. 82, “*Pension Issues – An Amendment of GASB Statements No 67, No. 68, and No. 73*),” addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. The provisions of this statement have been adopted and incorporated into these financial statements.

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FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Pending Pronouncements

GASB has issued statements that will become effective in future years including Statement Nos. 75 (OPEB Employer), 82 (Pensions), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 85 (Omnibus 2017), 86 (Certain Debt Extinguishment Issues), 87 (Leases), and 88 (Certain Debt Disclosures). Management has not yet determined the impact of these statements on the financial statements.

2. Deposits and Investments

The Authority is authorized to make investments of the following types pursuant to the Municipal Authority Act of 1945. The authorized investments include (1) United States Treasury bills, (2) short-term obligations of the United States government or its agencies or instrumentalities, (3) deposits in savings accounts or time deposits or share accounts of institutions which are insured, (4) obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision thereof, and (5) shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the investments of the Authority meet the criteria in (1) through (4) above.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the period that were in violation of either the state statutes or the policy of the Authority.

Deposits

The following is a description of the Authority's risks related to its deposits:

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 formal deposit policy for custodial credit risk. Deposits in excess of amounts covered by Federal Deposit Insurance Corporation are collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. As of December 31, 2017, \$4,244,909 of the Authority's bank balance of \$4,624,213 was exposed to custodial credit risk. As of December 31, 2016, \$4,147,448 of the Authority's bank balance of \$4,567,537

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FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

was exposed to custodial credit risk. These deposits have carrying amounts of \$4,494,186 and \$3,020,304 at December 31, 2017 and 2016, respectively.

Investments

At December 31, 2017, the Authority held the following investment balances:

	Value	Maturity in Years		
		Less Than 1 Year	1-5 Years	6-10 Years
Investments at fair value:				
U.S. Treasury notes	\$ 1,217,311	\$ -	\$ 845,472	\$ 371,839
Fixed income municipal bonds	397,186	151,810	155,802	89,574
Money market funds	7,257,681	7,257,681	-	-
Investments at cost:				
Certificates of deposit	1,860,432	299,638	944,318	616,476
Total investments	<u>\$ 10,732,610</u>	<u>\$ 7,709,129</u>	<u>\$ 1,945,592</u>	<u>\$ 1,077,889</u>

At December 31, 2016, the Authority held the following investment balances:

	Value	Maturity in Years		
		Less Than 1 Year	1-5 Years	6-10 Years
Investments at fair value:				
U.S. Treasury notes	\$ 473,264	\$ -	\$ 301,585	\$ 171,679
Fixed income municipal bonds	404,715	155,439	53,401	195,875
Money market funds	9,342,208	9,342,208	-	-
Investments at cost:				
Certificates of deposit	1,601,374	150,203	1,054,105	397,066
Total investments	<u>\$ 11,821,561</u>	<u>\$ 9,647,850</u>	<u>\$ 1,409,091</u>	<u>\$ 764,620</u>

The following is a description of the Authority's risks related to its investments:

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.

Credit Risk – The Municipal Authority Act authorizes the types of investments. The Authority has no investment policy that would further limit its investments choices.

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The credit ratings for the Authority's investments were as follows:

	Credit Rating	12/31/2017 Balance	12/31/2016 Balance
Fixed Income Bonds and U.S. Treasury Notes:	AAA	\$ 1,217,311	\$ 473,264
	AA	345,980	352,762
	A	51,206	51,953
Total		<u>\$ 1,614,497</u>	<u>\$ 877,979</u>
Money Market (BNYM)	AAAm		
Money Market (FNB)	AAAm		

Concentration of Credit Risk – The Authority places no limit on the amount it may invest in any one issuer.

The Authority's investments in fixed income municipal bonds, U.S. Treasury notes, and money market funds are valued using quoted market prices (Level 1 inputs).

3. Receivable for Line Extensions

The Authority undertook certain line extensions in 1985 and 1986, primarily on Mosside, Old Frankstown, and Johnson's Roads. The extensions were made to improve distribution in the system and also to make water available for property owners' future use.

The cost of this construction was capitalized and the property owners were assessed on a "front foot" basis. The property owners were given the option of paying the assessments immediately or accepting liens on their property.

Approximately \$645,000 of the cost has been assessed on the property owners, of which approximately \$473,000 has been collected as of December 31, 2017. Liens have been recorded on the properties where the assessments have not yet been collected. The assessments receivable have been recorded on the Authority's financial statements. As of December 31, 2017 and 2016, \$171,503 is outstanding.

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4. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	December 31, 2016 Balance	Increases	Transfers/ Decreases	December 31, 2017 Balance
Capital assets, not being depreciated:				
Land	\$ 751,405	\$ -	\$ -	\$ 751,405
Construction in progress	-	38,653	-	38,653
Total capital assets, not being depreciated	<u>751,405</u>	<u>38,653</u>	<u>-</u>	<u>790,058</u>
Capital assets, being depreciated:				
Water system	21,162,043	612,607	-	21,774,650
Sewer system	15,011,926	337,256	-	15,349,182
Building and improvements	13,008,260	189,429	-	13,197,689
Heavy equipment	3,366,531	412,940	-	3,779,471
Office furniture and equipment	1,019,122	3,328	-	1,022,450
Vehicles	2,024,872	109,528	(128,422)	2,005,978
Total capital assets, being depreciated	<u>55,592,754</u>	<u>1,665,088</u>	<u>(128,422)</u>	<u>57,129,420</u>
Accumulated depreciation	<u>(17,006,210)</u>	<u>(1,327,108)</u>	<u>128,422</u>	<u>(18,204,896)</u>
Total capital assets, being depreciated, net	<u>38,586,544</u>	<u>337,980</u>	<u>-</u>	<u>38,924,524</u>
Total capital assets, net	<u>\$ 39,337,949</u>	<u>\$ 376,633</u>	<u>\$ -</u>	<u>\$ 39,714,582</u>

Capital asset activity for the year ended December 31, 2016 was as follows:

	December 31, 2015 Balance	Increases	Transfers/ Decreases	December 31, 2016 Balance
Capital assets, not being depreciated:				
Land	\$ 751,405	\$ -	\$ -	\$ 751,405
Construction in progress	835,399	-	(835,399)	-
Total capital assets, not being depreciated	<u>1,586,804</u>	<u>-</u>	<u>(835,399)</u>	<u>751,405</u>
Capital assets, being depreciated:				
Water system	18,870,814	1,547,848	743,381	21,162,043
Sewer system	14,882,261	37,647	92,018	15,011,926
Building and improvements	12,964,162	44,098	-	13,008,260
Heavy equipment	3,054,967	311,564	-	3,366,531
Office furniture and equipment	1,013,589	5,533	-	1,019,122
Vehicles	1,958,129	126,743	(60,000)	2,024,872
Total capital assets, being depreciated	<u>52,743,922</u>	<u>2,073,433</u>	<u>775,399</u>	<u>55,592,754</u>
Accumulated depreciation	<u>(15,802,049)</u>	<u>(1,264,161)</u>	<u>60,000</u>	<u>(17,006,210)</u>
Total capital assets, being depreciated, net	<u>36,941,873</u>	<u>809,272</u>	<u>835,399</u>	<u>38,586,544</u>
Total capital assets, net	<u>\$ 38,528,677</u>	<u>\$ 809,272</u>	<u>\$ -</u>	<u>\$ 39,337,949</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

5. Long-Term Debt

The following are changes in bonds payable for the year ended December 31, 2017:

Balance December 31, 2016	Payments	Balance December 31, 2017	Due Within One Year
\$ 22,890,000	\$ 2,810,000	\$ 20,080,000	\$ 2,880,000

The Authority's outstanding debt issuances are as follows:

	At December 31st	
	2017	2016
Series A of the 2008 Water Revenue Bonds were issued on February 1, 2008 in the amount of \$7,170,000. The interest rate ranges from 3.40% to 5.00%; payable semi-annually on June 1 and December 1 through 2017.	\$ -	\$ 550,000
Series B of the 2008 Sewer Revenue Bonds were issued on February 1, 2008 in the amount of \$7,405,000, of which \$7,320,000 was refunded during 2015. The interest rate ranges from 4.00% to 5.00%; payable semi-annually on June 1 and December 1 through 2017.	-	15,000
Series B of the 2011 Sewer Revenue Bonds were issued on December 1, 2011 in the amount of \$10,000,000. The interest rate ranges from 2.00% to 3.25%; payable semi-annually on June 1 and December 1 through 2022.	6,420,000	7,735,000
2012 Sewer Revenue Bonds were issued on June 27, 2012 in the amount of \$3,985,000. The interest rate ranges from 0.50% to 3.00%; payable semi-annually on June 1 and December 1 through 2022.	775,000	785,000
2014 Water Revenue Bonds were issued on August 26, 2014 in the amount of \$5,295,000. The interest rate ranges from 2.0% to 3.0%; payable semi-annually on June 1 and December 1 through 2021.	4,505,000	5,295,000
2015 Sewer Revenue Bonds were issued on March 26, 2015 in the amount of \$8,835,000. The interest rate ranges from 2.0% to 3.125%; payable semi-annually on June 1 and December 1 through 2027.	8,380,000	8,510,000
	\$ 20,080,000	\$ 22,890,000

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Future Debt Service

Future debt service on long-term debt for the year ended December 31, 2017 is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,880,000	\$ 556,085	\$ 3,436,085
2019	2,965,000	479,923	3,444,923
2020	3,045,000	396,675	3,441,675
2021	1,865,000	321,488	2,186,488
2022	1,685,000	266,694	1,951,694
2023-2027	<u>7,640,000</u>	<u>605,663</u>	<u>8,245,663</u>
	<u>\$ 20,080,000</u>	<u>\$ 2,626,528</u>	<u>\$ 22,706,528</u>

In the bond indentures, the Authority covenants that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Authority, together with other income, that will yield annual net earnings for the fiscal year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments for all bonds outstanding. The Authority further covenants that it will maintain rates and charges that are sufficient to provide for the payment of bonds; to maintain the debt service funds, debt service reserve funds and any other related funding instruments related to the debt of the system; and to provide for the payment of administrative and operational expenses of the system, preserving the system in good repair and working order. The Authority was in compliance with its debt covenants for the years ended December 31, 2017 and 2016. In accordance with the assertions of management and the Authority's bond counsel, expenses of \$179,527 for water and \$179,527 for sewer were excluded from the debt covenant calculation for 2017 as they relate to post-employment benefits as described in Note 7.

6. Defined Benefit Plan

General Information About the Pension Plans. The Authority has a single-employer defined benefit pension plan (Plan) covering substantially all full-time employees. The Plan is controlled by the provisions of the Plan restatement as of January 1, 2008 (as amended). The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Stand-alone financial reports were not issued for the Plan, as they are not

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required under the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Under the Plan, employees' eligibility for normal benefits begins at age 62 and 10 years of service, at which time the individual is entitled to an annual retirement benefit, payable monthly for life. The normal retirement pension is 2.5% of the 24 final months' average monthly compensation times years of service (maximum 20 years) plus 1% of 24 final months' average monthly compensation times years of service in excess of 20 years (maximum 15 years).

Special retirement is available to all participants after attainment of 30 years of service, at which time he/she may commence receiving his/her unreduced accrued benefit. If an active member with 10 years of service incurs a service related disability and qualifies for Social Security disability, he/she is eligible for an immediate monthly payment of the accrued benefit.

Employees Covered by Benefit Terms. As of the most recent actuarial valuations for 2017 and 2016, the following employees were covered by the benefit terms:

Actuarial Valuation Date: December 31, 2017	
	Plan
Inactive plan members or beneficiaries currently receiving benefits	23
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	30
Total plan members	55

Actuarial Valuation Date: December 31, 2016	
	Plan
Inactive plan members or beneficiaries currently receiving benefits	22
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	32
Total plan members	56

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Contributions. Commonwealth of Pennsylvania Act 205 requires that annual contributions be based upon the Minimum Municipal Obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. Employees presently are not required to contribute. The MMOs for 2017 and 2016 were \$487,122 and \$338,751, respectively.

Investment Policy. The Plan is governed by the Pension Board, who is responsible for the management of Plan assets. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the latest reported sales price at current exchange rates.

Long-Term Expected Rate of Return. The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following were the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2017 and 2016:

As of December 31, 2017:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large cap equities	47.0%	8.79%
Mid cap equities	5.0%	10.57%
Small cap equities	5.0%	10.57%
International equities	3.0%	8.83%
Fixed income	40.0%	3.82%
	<u>100.0%</u>	

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As of December 31, 2016:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large cap equities	47.0%	8.55%
Mid cap equities	5.0%	10.00%
Small cap equities	5.0%	10.00%
International equities	3.0%	8.00%
Fixed income	40.0%	2.50%
	<u>100.0%</u>	

Rate of Return. For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.66%. For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability. The Authority's net pension liability for 2017 and 2016 was measured as of December 31, 2017 and 2016, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those respective measurement dates.

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.00%
Underlying inflation rate	3.00%
Salary projection	4.00%
Pre-Retirement Mortality	RP-2000 (generational, AA)
Post-Retirement Mortality	RP-2000 (generational, AA)
Discount rate:	7.00%

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Note: There were no actuarial assumption changes between the 2017 and 2016 actuarial valuations.

Changes in Net Pension Liability. Changes in the Authority's net pension liability (asset) are as follows:

	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Balances at 12/31/16	\$ 15,201,560	\$ 13,303,462	\$ 1,898,098
Changes for the year:			
Service cost	361,666	-	361,666
Interest	1,066,326	-	1,066,326
Differences between expected and actual experience	(535,731)	-	(535,731)
Employer contributions	-	563,712	(563,712)
Net investment income	-	1,947,036	(1,947,036)
Benefit payments, including refunds of employee contributions	(617,672)	(617,672)	-
Balances at 12/31/17	<u>\$ 15,476,149</u>	<u>\$ 15,196,538</u>	<u>\$ 279,611</u>
Plan fiduciary net position as a percentage of total pension liability			<u>98.19%</u>

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	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Balances at 12/31/15	\$ 14,583,135	\$ 13,398,162	\$ 1,184,973
Changes for the year:			
Service cost	375,845	-	375,845
Interest	1,025,845	-	1,025,845
Differences between expected and actual experience	(211,757)	-	(211,757)
Employer contributions	-	458,088	(458,088)
Net investment income	-	18,720	(18,720)
Benefit payments, including refunds of employee contributions	(571,508)	(571,508)	-
Balances at 12/31/16	\$ 15,201,560	\$ 13,303,462	\$ 1,898,098
Plan fiduciary net position as a percentage of total pension liability			87.51%

Sensitivity of the Net Pension Liability to Changes in Discount Rate. The following presents the net pension liability of the Authority, calculated using the discount rate of 7.00%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	\$ 2,009,417	\$ 279,611	\$ (1,184,138)

Pension Expense and Deferred Inflows/Outflows of Resources Related to Pensions. For the years ended December 31, 2017 and 2016, the Authority recognized pension expense of \$421,709 and \$731,820, respectively. At December 31, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Year Ending December 31, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (570,510)
Net difference between projected and actual earnings on pension plan investments	862,895	(813,947)
	\$ 862,895	\$ (1,384,457)

Year Ending December 31, 2016:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (247,890)
Net difference between projected and actual earnings on pension plan investments	1,202,812	-
	\$ 1,202,812	\$ (247,890)

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

Year Ending December 31	Deferred Outflows (Inflows) of Resources
2018	\$ (76,681)
2019	(73,812)
2020	(167,583)
2021	(203,486)
	\$ (521,562)

7. Post-Employment Benefits

In addition to pension benefits described in Note 6, the Authority provides post-retirement health care benefits to its retired management and union employees. Management

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

retirees and their spouses are provided lifetime coverage without cost sharing. Union retirees are provided coverage, for the retiree only, between age 60 and 65; however, if a union employee retires and the retiree's spouse is employed with the spouse's employer offering equal or better medical benefits for the retiree, the Authority will not cover the retiree. During the year, fourteen former employees or their spouses were covered by this benefit.

Funding Policy

These benefits are expensed when incurred and are financed on a pay-as-you-go basis. For the fiscal years 2017 and 2016, the Authority paid \$105,711 and \$131,228, respectively, in other post-employment benefit (OPEB) costs.

The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the component of the Authority's annual OPEB cost for the year, the amount actually contributed, and changes in the Authority's net OPEB obligation:

Annual required contribution	\$	605,858
Interest on net OPEB obligation		82,467
Adjustment to annual required contribution		<u>(223,559)</u>
Annual OPEB cost		464,766
Contributions made		<u>(545,711)</u>
Decrease in net OPEB obligation		(80,945)
Net OPEB obligation - beginning of year		<u>2,748,891</u>
Net OPEB obligation - end of year	\$	<u><u>2,667,946</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>% of AOC Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2017	\$ 464,766	117.4%	\$ 2,667,946
December 31, 2016	465,134	148.6%	2,748,891
December 31, 2015	561,999	19.7%	2,974,983

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The ARC for the current year was computed as of December 31, 2017 using the following actuarial assumptions:

- actuarial cost method - entry age normal cost;
- amortization method - level % of compensation;
- amortization period - 15-year open period;
- discount rate - 4.0% compounded annually;
- projected salary increases - 3.0%
- mortality – RP-2014 head count, with Scale MP-2015

During 2016 the Authority established an OPEB trust. The balance of the trust at December 31, 2017 and 2016 was \$1,094,628 and \$561,982, respectively. Contributions to the trust during 2017 and 2016 totaled \$691,226 and \$545,711, respectively.

The schedule of funding progress as of December 31, 2017 for the postemployment medical benefits is as follows:

Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b)-(a)/(c)
\$ 1,094,628	\$ 6,191,466	\$ 5,096,838	17.68%	\$ 2,082,729	244.72%

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 employer subsidy. Amounts determined regarding the funded status and the annual required contributions of the employer 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 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.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

8. Contingent Liabilities and Commitments

Pennsylvania Department of Environmental Protection Consent Order

In 1997, the Allegheny County Health Department ordered 51 communities tributary to the Allegheny County Sanitary Authority whose sanitary sewers had been identified as being subject to possible wet weather overflows to implement a comprehensive assessment, flow monitoring, and planning program. During 2004, the Authority signed a consent agreement to comply with the requirement of the Pennsylvania Department of Environmental Protection and the Allegheny County Health Department. The Authority estimates the impact that this consent agreement will have on future financial statements is approximately \$30,000,000. During the year ended December 31, 2017, the Authority incurred costs of approximately \$515,820 towards these projects, which have been capitalized.

**REQUIRED SUPPLEMENTARY
INFORMATION**

MONROEVILLE MUNICIPAL AUTHORITY

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

LAST 10 FISCAL YEARS¹

	2017	2016	2015
Total Pension Liability:			
Service cost	\$ 361,666	\$ 375,845	\$ 387,473
Interest	1,066,326	1,025,845	978,404
Differences between expected and actual experience	(535,731)	(211,757)	(140,564)
Benefit payments, including refunds of member contributions	(617,672)	(571,508)	(513,024)
Net Changes in Total Pension Liability	274,589	618,425	712,289
Total Pension Liability - Beginning	15,201,560	14,583,135	13,870,846
Total Pension Liability - Ending (a)	\$ 15,476,149	\$ 15,201,560	\$ 14,583,135
Plan Fiduciary Net Position:			
Plan member contributions	\$ -	\$ -	\$ -
Employer contributions	563,712	458,088	388,020
Net investment income	1,947,036	18,720	147,156
Benefit payments, including refunds of member contributions	(617,672)	(571,508)	(513,024)
Net Change in Plan Fiduciary Net Position	1,893,076	(94,700)	22,152
Plan Fiduciary Net Position - Beginning	13,303,462	13,398,162	13,376,010
Plan Fiduciary Net Position - Ending (b)	\$ 15,196,538	\$ 13,303,462	\$ 13,398,162
Net Pension Liability (Asset) - Ending (a-b)	\$ 279,611	\$ 1,898,098	\$ 1,184,973
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.19%	87.51%	91.87%
Covered Payroll	\$ 2,109,947	\$ 2,181,650	\$ 2,237,758
Net Pension Liability as a Percentage of Covered Payroll	13.25%	87.00%	52.95%

¹ This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years only for which information is available.

See accompanying notes to required supplementary pension schedules.

MONROEVILLE MUNICIPAL AUTHORITY

SCHEDULE OF AUTHORITY CONTRIBUTIONS AND INVESTMENT RETURNS - PENSIONS

LAST 10 FISCAL YEARS¹

	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 487,122	\$ 338,751	\$ 358,591	\$ 321,263	\$ 310,831	\$ 337,475	\$ 356,663	\$ 250,949	\$ 242,499
Contributions in relation to the actuarially determined contribution	563,712	458,088	388,020	395,040	332,784	337,476	356,664	260,000	270,000
Contribution deficiency (excess)	<u>\$ (76,590)</u>	<u>\$ (119,337)</u>	<u>\$ (29,429)</u>	<u>\$ (73,777)</u>	<u>\$ (21,953)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (9,051)</u>	<u>\$ (27,501)</u>
Covered employee payroll	<u>\$ 2,145,718</u>	<u>\$ 2,290,488</u>	<u>\$ 2,424,983</u>	<u>\$ 2,343,173</u>	<u>\$ 2,274,245</u>	<u>\$ 2,259,339</u>	<u>\$ 2,377,057</u>	<u>\$ 2,302,974</u>	<u>\$ 2,260,310</u>
Contributions as a percentage of covered employee payroll	26.27%	20.00%	16.00%	16.86%	14.63%	14.94%	15.00%	11.29%	11.95%

Investment Returns

Annual money-weighted rate of return, net of investment expense	14.66%	0.14%	1.11%	6.17%	n/a	n/a	n/a	n/a	n/a
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n/a - Information not available

Notes to Required Supplementary Pension Schedules:

Valuation date: Actuarial calculations are performed each year as of January 1. Contributions noted above are as of each pension plan's calendar year ending December 31 using actuarially determined contribution rates calculated as of January 1, one year prior to the end of the calendar year in which contributions are reported.

Methods and assumptions used to determine the contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level-dollar
Remaining amortization period	10 years
Asset valuation method	3 year smoothing
Inflation	3.00%
Salary increases	4.00%
Investment rate of return (gross return assumption)	7.00%
Mortality - Union Plan	RP-2000 (generational, AA)

¹ This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years only for which information is available.

MONROEVILLE MUNICIPAL AUTHORITY

OPEB PLAN SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
12/31/2015	\$ -	\$ 5,970,775	\$ 5,970,775	0.00%	\$ 2,291,774	260.53%
12/31/2016	561,982	6,103,560	5,541,578	9.21%	2,142,609	258.64%
12/31/2017	1,094,628	6,191,466	5,096,838	17.68%	2,082,729	244.72%

MONROEVILLE MUNICIPAL AUTHORITY

OPEB PLAN
SCHEDULE OF CONTRIBUTIONS

<u>Calendar Year</u>	<u>Annual OPEB Cost</u>	<u>Employer Contributions</u>	<u>Percentage Contributed</u>
2015	\$ 561,999	\$ 110,805	19.72%
2016	465,134	691,226	148.61%
2017	464,766	545,711	117.42%

SUPPLEMENTARY INFORMATION

MONROEVILLE MUNICIPAL AUTHORITY

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Variance
Operating Revenues:				
Water revenues:				
Water sales	\$ 5,095,774	\$ 5,095,774	\$ 4,824,382	\$ (271,392)
Fire protection sales	420,000	420,000	422,391	2,391
Jobbing sales	55,000	55,000	33,299	(21,701)
Miscellaneous	195,550	195,550	235,792	40,242
Total water revenues	5,766,324	5,766,324	5,515,864	(250,460)
Sewer revenues:				
Sewage fees	11,920,953	11,920,953	12,020,225	99,272
Jobbing sales	-	-	855	855
Miscellaneous	444,350	444,350	424,608	(19,742)
Total sewer revenues	12,365,303	12,365,303	12,445,688	80,385
Total operating revenues	18,131,627	18,131,627	17,961,552	(170,075)
Operating Expenses:				
Water expenses:				
Water purchases	1,245,012	1,245,012	1,236,010	9,002
Power and pumping	107,823	107,823	45,255	62,568
Vehicle expense	50,278	50,278	53,092	(2,814)
System maintenance	1,106,223	1,106,223	821,898	284,325
General and administrative	1,512,547	1,512,547	1,393,549	118,998
Jobbing and tapping	-	-	-	-
Authority Board expenses	8,400	8,400	8,000	400
Depreciation	-	-	994,624	(994,624)
Total water expenses	4,030,283	4,030,283	4,552,428	(522,145)
Sewer expenses:				
Sewer expenses	6,225,659	6,225,659	6,250,706	(25,047)
Power and pumping	7,511	7,511	4,866	2,645
Vehicle expense	50,278	50,278	60,137	(9,859)
System maintenance	1,102,758	1,102,758	854,260	248,498
General and administrative	1,587,683	1,587,683	1,484,226	103,457
Authority Board expenses	8,400	8,400	8,000	400
Depreciation	-	-	332,484	(332,484)
Total sewer expenses	8,982,289	8,982,289	8,994,679	(12,390)
Total operating expenses	13,012,572	13,012,572	13,547,107	(534,535)
Operating Income (Loss)	5,119,055	5,119,055	4,414,445	(704,610)

(Continued)

MONROEVILLE MUNICIPAL AUTHORITY

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

	Original Budget	Final Budget	Actual	Variance
Nonoperating Revenues:				
Interest income - water	-	-	34,917	34,917
Interest income - sewer	-	-	34,917	34,917
Total nonoperating revenues	-	-	69,834	69,834
Capital Contributions:				
Developer contribution revenue - water	-	-	12,464	12,464
Developer contribution revenue - sewer	-	-	118,260	118,260
Tap-in fees - water	15,100	15,100	9,600	(5,500)
Tap-in fees - sewer	27,375	27,375	74,925	47,550
Total capital contributions	42,475	42,475	215,249	172,774
Nonoperating Expenses:				
Interest on bonds - water	-	-	16,128	(16,128)
Interest on bonds - sewer	-	-	444,749	(444,749)
Amortization of prepaid bond insurance costs - water	-	-	6,845	(6,845)
Amortization of prepaid bond insurance costs - sewer	-	-	10,415	(10,415)
Amortization of loss on refunding - sewer	-	-	124,290	(124,290)
Total nonoperating expenses	-	-	602,427	(602,427)
Change in Net Position	\$ 5,161,530	\$ 5,161,530	\$ 4,097,101	\$ (1,064,429)

(Concluded)