

Monroeville Municipal Authority

Financial Statements and Required Supplementary and Supplementary Information

For the Years Ended December 31, 2018 and 2017
with Independent Auditor's Report

MaherDuessel

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MONROEVILLE MUNICIPAL AUTHORITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)," which requires the Authority to record its OPEB liability and related items on the financial statements. Our opinion is not modified with respect to that matter.

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 29, 2019

Monroeville Municipal Authority
Management's Discussion and Analysis
December 31, 2018

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 \$18.3 million for the fiscal period ending December 31, 2018, an increase from the fiscal year ending December 31, 2017, in the amount of approximately \$0.3 million, or 1.8%. Total operating revenues were in line with budget projections for 2018.

Operating expenses for the fiscal year ended December 31, 2018 increased about 4.6% from fiscal year 2017 and were around \$380,000 over budget. Approximately \$1.4 million of these expenses were related to depreciation expense.

Tap-in fees were \$138,875 in 2018, an increase of \$54,350, or approximately 64%, compared to fiscal year 2017.

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 \$5,070,000; the 2012 Sewer Revenue Bonds, maturing December 1, 2022 with a principal balance of \$765,000; the 2014 Water Revenue Bonds maturing December 1, 2021 with a principal balance of \$3,125,000; and the 2015 Sewer Revenue Bonds, maturing December 1, 2027 with a principal balance of \$8,240,000. 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 Authority adopted Government Accounting Standards Board (GASB) Statement #75 during 2018. The standard changed how the OPEB liability of the organization is calculated and reported. In general, GASB #75 increased the liability reported. As part of the implementation, the January 1, 2018 net position was decreased by \$2.4 million from the December 31, 2017 reported net position. As permitted by the Statement #75, the Authority deemed it not practical to recompute the January 1, 2017 to December 31, 2017 financial statement impact of GASB #75 so the 2017 financial statements still reflect the GASB #45 accounting for OPEBs.

The following are the condensed statements of net position for the years ended December 31, 2018, 2017, and 2016:

	2018	2017	2016
<u>Assets and Deferred Outflows of Resources</u>			
Assets:			
Total current assets	\$ 11,462,359	\$ 10,544,526	\$ 8,484,122
Total capital assets	40,015,559	39,714,582	39,337,949
Restricted assets and other assets	6,314,320	7,738,003	8,969,384
Total Assets	57,792,238	57,997,111	56,791,455
Deferred Outflows of Resources:			
Deferred loss on refunding	748,314	872,604	996,894
Related to pensions	2,196,755	862,895	1,202,812
Related to OPEB	652,774	-	-
Total Assets and Deferred Outflows of Resources	\$ 61,390,081	\$ 59,732,610	\$ 58,991,161
<u>Liabilities and Net Position</u>			
Liabilities:			
Current liabilities	\$ 4,849,154	\$ 4,898,707	\$ 4,695,830
Long-term liabilities	18,343,673	20,304,974	25,000,070
Total Liabilities	23,192,827	25,203,681	29,695,900
Deferred Inflows of Resources:			
Related to pensions	967,859	1,384,457	247,890
Related to OPEB	2,186,565	-	-
Net Position:			
Net investment in capital assets	25,050,872	23,440,423	21,564,362
Restricted for capital activity and debt service	4,180,149	4,115,933	4,017,777
Unrestricted	5,811,809	5,588,116	3,465,232
Total Net Position	35,042,830	33,144,472	29,047,371
Total Liabilities and Net Position	\$ 61,390,081	\$ 59,732,610	\$ 58,991,161

Total net position increased \$1.90 million from 2017 as a result of rate increases for sewer services, helping the Authority to obtain a significant operating income.

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.

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, 2018, 2017, and 2016 and further illustrates the increase in operating income as a result of the 2018 rate increases for sewer services and the increase in operating income as a result of the 2017 rate increases for sewer services.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Water Service:</u>			
Water sales	\$ 4,831,968	\$ 4,824,382	\$ 4,949,361
Fire protection fees	424,436	422,391	420,425
Jobbing sales	104,160	33,299	70,881
Tap-in fees	48,000	9,600	14,200
Other	217,515	235,792	212,468
	<u>5,626,079</u>	<u>5,525,464</u>	<u>5,667,335</u>
<u>Sewer Service:</u>			
Sewage fees	12,336,196	12,020,225	11,678,099
Jobbing sales	755	855	338
Tap-in fees	90,875	74,925	-
Other	378,166	424,608	398,249
	<u>12,805,992</u>	<u>12,520,613</u>	<u>12,076,686</u>
Total operating revenues, including tap-in fees	<u>\$ 18,432,071</u>	<u>\$ 18,046,077</u>	<u>\$ 17,744,021</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 the Commonwealth of Pennsylvania.

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 2018 of approximately \$13.58 million represents an increase of 0.2% from fiscal year 2017.

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. The Authority was in compliance with its bond covenants for the year ended December 31, 2018.

Cash Flow Activity

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

Net cash provided by operating activities (excluding tap-in fees) is shown both in total dollars and as a percentage of operating revenues as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Total operating revenues	\$ 18,293,196	\$ 17,961,552	\$ 331,644
Net cash provided by operations	\$ 4,332,128	\$ 5,209,366	\$ (877,238)
Net operating cash as a percentage of operating revenues	<u>24%</u>	<u>29%</u>	
Principal payments on debt	<u>\$ 2,880,000</u>	<u>\$ 2,810,000</u>	

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	<u>\$ 2,810,000</u>	<u>\$ 2,845,000</u>	

Capital Assets and Debt Administration

Capital asset additions were \$1,712,794 during 2018, with the majority of the expenditures relating to the installation of sewer lines and water lines and the purchase of heavy equipment and vehicles.

Total bonds payable decreased \$2,880,000 during 2018 due to current year payments on bonds.

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, 2018 AND 2017

	2018	2017		2018	2017
Assets:			Liabilities:		
<u>Current assets:</u>			<u>Current liabilities:</u>		
Cash and cash equivalents:			Accounts payable - operating expenses	\$ 1,472,608	\$ 1,606,848
Operating	\$ 4,497,449	\$ 4,141,170	Accrued payroll and taxes	56,219	51,946
Accounts receivable:			Bonds payable - current portion	<u>2,965,000</u>	<u>2,880,000</u>
Water and sewage	2,602,636	2,518,723	Total current liabilities	<u>4,493,827</u>	<u>4,538,794</u>
Prepaid expenses	155,481	182,411			
Inventory of materials and supplies	13,169	20,227	<u>Current liabilities (payable from restricted assets):</u>		
Investments	<u>4,193,624</u>	<u>3,681,995</u>	Accrued interest on bonds	39,994	46,340
Total current assets	<u>11,462,359</u>	<u>10,544,526</u>	Customer deposits	<u>315,333</u>	<u>313,573</u>
			Total current liabilities		
<u>Capital assets:</u>			(payable from restricted assets)	<u>355,327</u>	<u>359,913</u>
Water system	22,296,215	21,774,650			
Sewer system	15,509,700	15,349,182	<u>Long-term liabilities:</u>		
Buildings and improvements	13,197,689	13,197,689	Net pension liability	1,521,645	279,611
Heavy equipment	4,031,008	3,779,471	Net OPEB liability	2,466,686	-
Office furniture and equipment	1,117,850	1,022,450	Accrued OPEB liability	-	2,667,946
Vehicles	2,036,250	2,005,978	Bonds payable	14,235,000	17,200,000
Less accumulated depreciation	(19,586,303)	(18,204,896)	Unamortized premium	<u>120,342</u>	<u>157,417</u>
Land	751,405	751,405	Total long-term liabilities	<u>18,343,673</u>	<u>20,304,974</u>
Construction in progress	<u>661,745</u>	<u>38,653</u>			
Total capital assets	<u>40,015,559</u>	<u>39,714,582</u>	Total Liabilities	<u>23,192,827</u>	<u>25,203,681</u>
<u>Restricted assets:</u>			<u>Deferred inflows of Resources:</u>		
Cash and investments:			Related to pensions	967,859	1,384,457
Construction funds	1,466,138	2,927,785	Related to OPEB	<u>2,186,565</u>	<u>-</u>
Debt service fund	630,295	626,636	Total deferred inflows of resources	<u>3,154,424</u>	<u>1,384,457</u>
Debt service reserve fund	3,553,348	3,496,194			
Funds held in escrow	351,833	353,016			
<u>Other assets:</u>					
Unamortized prepaid bond insurance	141,203	162,869			
Line extensions receivable	<u>171,503</u>	<u>171,503</u>			
Total restricted assets and other assets	<u>6,314,320</u>	<u>7,738,003</u>			
Total Assets	<u>57,792,238</u>	<u>57,997,111</u>			
<u>Deferred Outflows of Resources:</u>			<u>Net Position</u>		
Deferred loss on refunding	748,314	872,604	Net investment in capital assets	25,050,872	23,440,423
Related to pensions	2,196,755	862,895	Restricted for capital activity and debt service	4,180,149	4,115,933
Related to OPEB	<u>652,774</u>	<u>-</u>	Unrestricted	<u>5,811,809</u>	<u>5,588,116</u>
Total deferred outflows of resources	<u>3,597,843</u>	<u>1,735,499</u>	Total Net Position	<u>35,042,830</u>	<u>33,144,472</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 61,390,081</u>	<u>\$ 59,732,610</u>	Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 61,390,081</u>	<u>\$ 59,732,610</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, 2018 AND 2017

	2018	2017
Operating Revenues:		
Water revenues:		
Water sales	\$ 4,831,968	\$ 4,824,382
Fire protection sales	424,436	422,391
Jobbing sales	104,160	33,299
Miscellaneous	217,515	235,792
Total water revenues	5,578,079	5,515,864
Sewer revenues:		
Sewage fees	12,336,196	12,020,225
Jobbing sales	755	855
Miscellaneous	378,166	424,608
Total sewer revenues	12,715,117	12,445,688
Total operating revenues	18,293,196	17,961,552
Operating Expenses:		
Water expenses:		
Water purchases	1,134,709	1,236,010
Power and pumping	61,424	45,255
Vehicle expense	35,690	53,092
System maintenance	912,706	821,898
General and administrative	1,225,110	1,393,549
Authority Board expenses	8,400	8,000
Depreciation	1,037,276	994,624
Total water expenses	4,415,315	4,552,428
Sewer expenses:		
Sewer expenses	6,626,129	6,250,706
Power and pumping	5,502	4,866
Vehicle expense	35,810	60,137
System maintenance	846,587	854,260
General and administrative	1,277,685	1,484,226
Authority Board expenses	8,400	8,000
Depreciation	359,337	332,484
Total sewer expenses	9,159,450	8,994,679
Total operating expenses	13,574,765	13,547,107
Operating Income	4,718,431	4,414,445

(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, 2018 AND 2017

(Continued)

	2018	2017
Nonoperating Revenues:		
Interest income - water	63,292	34,917
Interest income - sewer	63,291	34,917
Total nonoperating revenues	126,583	69,834
Capital Contributions:		
Developer contribution revenue - water	17,186	12,464
Developer contribution revenue - sewer	-	118,260
Tap-in fees - water	48,000	9,600
Tap-in fees - sewer	90,875	74,925
Total capital contributions	156,061	215,249
Nonoperating Expenses:		
Interest on bonds - water	90,417	16,128
Interest on bonds - sewer	557,789	569,039
Other expenses - water	7,602	-
Other expenses - sewer	7,602	-
Amortization of prepaid bond insurance costs - water	-	6,845
Amortization of prepaid bond insurance costs - sewer	10,415	10,415
Total nonoperating expenses	673,825	602,427
Change in Net Position	4,327,250	4,097,101
Net Position:		
Beginning of year, 1/1/17	-	29,047,371
Beginning of year, as restated, 1/1/18	30,715,580	-
End of year	\$ 35,042,830	\$ 33,144,472

(Concluded)

See accompanying notes to financial statements.

MONROEVILLE MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Cash received from customers	\$ 18,211,043	\$ 17,521,371
Cash payments to employees for services	(1,912,592)	(1,857,017)
Cash payments to suppliers for goods and services	(11,966,323)	(10,454,988)
Net cash provided by (used in) operating activities	4,332,128	5,209,366
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(1,695,609)	(1,580,758)
Principal payments on bonds	(2,880,000)	(2,810,000)
Interest payments on bonds	(556,086)	(595,777)
Reimbursements	-	7,741
Tap-in fees received and other	138,875	84,525
Net cash provided by (used for) capital and related financing activities	(4,992,820)	(4,894,269)
Cash Flows From Investing Activities:		
Interest earnings	126,583	69,834
Purchase of investment securities	(511,629)	(114,666)
Net cash provided by (used in) investing activities	(385,046)	(44,832)
Increase (Decrease) in Cash and Cash Equivalents	(1,045,738)	270,265
Cash and Cash Equivalents:		
Beginning of year, including \$7,403,631 and \$8,606,498, respectively, in restricted accounts	11,544,801	11,274,536
End of year, including \$6,001,614 and \$7,403,631, respectively, in restricted accounts	\$ 10,499,063	\$ 11,544,801
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 4,718,431	\$ 4,414,445
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	1,396,613	1,327,108
Change in OPEB liability	-	(80,945)
Minimum Municipal Obligation contribution and pension expense	(508,423)	(142,003)
OPEB contribution and OPEB expense	(1,096,361)	-
Change in operating assets and liabilities:		
Accounts receivable	(83,913)	(443,080)
Accounts payable and accrued expenses	(129,967)	160,468
Prepays	26,930	(19,520)
Customer deposits	1,760	2,899
Inventory	7,058	(10,006)
Net adjustments	(386,303)	794,921
Net cash provided by (used in) operating activities	\$ 4,332,128	\$ 5,209,366
Noncash Investing, Capital, and Financing Activities:		
Developer capital contributions	\$ 17,186	\$ 122,983

See accompanying notes to financial statements.

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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.

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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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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 three 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.

In conjunction with other post-employment benefit (OPEB) accounting requirements, certain elements are recorded as deferred outflows (inflows) of resources related to OPEB on the financial statements. These amounts are determined based on actuarial valuations performed for the OPEB plan. Note 7 presents additional information about the OPEB 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.

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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 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.

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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.

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 \$4,180,149 and \$4,115,933 at December 31, 2018 and 2017, 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.

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Adopted Pronouncement

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

GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions of this statement have been adopted and incorporated into these financial statements. As a result of this implementation, the Authority’s net position as of January 1, 2018 has been restated by \$2,428,892. Information to restate balances for the year ended December 31, 2017 was unavailable. As permitted, beginning balances for deferred outflows of resources related to OPEBs, other than those related to contributions made subsequent to the measurement date, are not reported.

Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 83 (Certain Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements), 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), and 90 (Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61). 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.

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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, 2018, \$4,834,005 of the Authority's bank balance of \$5,087,892 was exposed to custodial credit risk. As of December 31, 2017, \$4,244,909 of the Authority's bank balance of \$4,624,213 was exposed to custodial credit risk. These deposits have carrying amounts of \$4,849,282 and \$4,494,186 at December 31, 2018 and 2017, respectively.

Investments

At December 31, 2018, 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	\$ 1,431,218	\$ 198,720	\$ 833,536	\$ 398,962
Fixed income municipal bonds	241,881	-	241,881	-
Money market funds	5,804,184	5,804,184	-	-
Investments at cost:				
Certificates of deposit	2,366,122	349,192	373,901	1,643,029
Total investments	<u>\$ 9,843,405</u>	<u>\$ 6,352,096</u>	<u>\$ 1,449,318</u>	<u>\$ 2,041,991</u>

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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	<u>1,860,432</u>	<u>299,638</u>	<u>944,318</u>	<u>616,476</u>
Total investments	<u>\$ 10,732,610</u>	<u>\$ 7,709,129</u>	<u>\$ 1,945,592</u>	<u>\$ 1,077,889</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.

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

	Credit Rating	12/31/2018 Balance	12/31/2017 Balance
Fixed Income Bonds and U.S. Treasury Notes:	AAA	\$ 1,431,218	\$ 1,217,311
	AA	191,406	345,980
	A	<u>50,475</u>	<u>51,206</u>
Total		<u>\$ 1,673,099</u>	<u>\$ 1,614,497</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).

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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, 2018. 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, 2018 and 2017, \$171,503 is outstanding.

4. Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

	December 31, 2017 Balance	Increases	Transfers/ Decreases	December 31, 2018 Balance
Capital assets, not being depreciated:				
Land	\$ 751,405	\$ -	\$ -	\$ 751,405
Construction in progress	38,653	658,968	(35,876)	661,745
Total capital assets, not being depreciated	790,058	658,968	(35,876)	1,413,150
Capital assets, being depreciated:				
Water system	21,774,650	485,689	35,876	22,296,215
Sewer system	15,349,182	160,518	-	15,509,700
Building and improvements	13,197,689	-	-	13,197,689
Heavy equipment	3,779,471	251,537	-	4,031,008
Office furniture and equipment	1,022,450	95,400	-	1,117,850
Vehicles	2,005,978	60,682	(30,410)	2,036,250
Total capital assets, being depreciated	57,129,420	1,053,826	5,466	58,188,712
Accumulated depreciation	(18,204,896)	(1,396,613)	15,206	(19,586,303)
Total capital assets, being depreciated, net	38,924,524	(342,787)	20,672	38,602,409
Total capital assets, net	\$ 39,714,582	\$ 316,181	\$ (15,204)	\$ 40,015,559

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

	December 31, 2016		Transfers/ Decreases	December 31, 2017
	Balance	Increases		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>

5. Long-Term Debt

The following are changes in bonds payable for the year ended December 31, 2018:

Balance December 31, 2017	Payments	Balance December 31, 2018	Due Within One Year
<u>\$ 20,080,000</u>	<u>\$ 2,880,000</u>	<u>\$ 17,200,000</u>	<u>\$ 2,965,000</u>

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The Authority's outstanding debt issuances are as follows:

	At December 31st	
	2018	2017
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.	\$ 5,070,000	\$ 6,420,000
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.	765,000	775,000
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.	3,125,000	4,505,000
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.	8,240,000	8,380,000
	\$ 17,200,000	\$ 20,080,000

Future Debt Service

Future debt service on long-term debt for the year ended December 31, 2018 is as follows:

Year Ending December 31,	Principal	Interest	Total
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	1,735,000	218,944	1,953,944
2024-2027	5,905,000	386,719	6,291,719
	\$ 17,200,000	\$ 2,070,443	\$ 19,270,443

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

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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, 2018 and 2017. In accordance with the assertions of management and the Authority's bond counsel, certain expenses that relate to post-employment benefits as described in Note 7 are excluded from the debt covenant calculation.

6. Defined Benefit Pension 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 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 the 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.

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Employees Covered by Benefit Terms. As of the most recent actuarial valuations for 2018 and 2017, the following employees were covered by the benefit terms:

	Actuarial Valuation Date: December 31,	
	<u>2018</u>	<u>2017</u>
Inactive plan members or beneficiaries currently receiving benefits	25	23
Inactive plan members entitled to but not yet receiving benefits	2	2
Active plan members	<u>28</u>	<u>30</u>
Total plan members	<u><u>55</u></u>	<u><u>55</u></u>

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 2018 and 2017 were \$486,326 and \$487,122, 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, 2018 and 2017:

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As of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap equities	47.0%	9.71%
Mid cap equities	5.0%	11.38%
Small cap equities	5.0%	11.38%
International equities	3.0%	9.33%
Fixed income	40.0%	3.67%
	<u>100.0%</u>	

As of December 31, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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>	

Rate of Return. For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -4.73%. 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%. 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 2018 and 2017 was measured as of December 31, 2018 and 2017, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those respective measurement dates.

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Actuarial Assumptions. The total pension liability in the December 31, 2018 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	2.50%
Salary projection	4.00%
Pre-Retirement Mortality	RP-2000 (generational, AA)
Post-Retirement Mortality	RP-2000 (generational, AA)
Discount rate:	7.00%

Note: The underlying inflation rate decreased to 2.50% from 3.00% between the 2018 and 2017 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 12/31/17	\$ 15,476,149	\$ 15,196,538	\$ 279,611
Changes for the year:			
Service cost	336,980	-	336,980
Interest	1,079,580	-	1,079,580
Differences between expected and actual experience	289,051	-	289,051
Employer contributions	-	1,203,415	(1,203,415)
Net investment income	-	(739,838)	739,838
Benefit payments, including refunds of employee contributions	(733,384)	(733,384)	-
Balances at 12/31/18	<u>\$ 16,448,376</u>	<u>\$ 14,926,731</u>	<u>\$ 1,521,645</u>
Plan fiduciary net position as a percentage of total pension liability			<u>90.75%</u>

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	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	\$ 15,476,149	\$ 15,196,538	\$ 279,611
Plan fiduciary net position as a percentage of total pension liability			98.19%

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	\$ 3,354,043	\$ 1,521,645	\$ (29,963)

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Pension Expense and Deferred Inflows/Outflows of Resources Related to Pensions. For the years ended December 31, 2018 and 2017, the Authority recognized pension expense of \$694,991 and \$421,709, respectively. At December 31, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Year Ending December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 206,465	\$ (357,399)
Net difference between projected and actual earnings on pension plan investments	1,990,290	(610,460)
	<u>\$ 2,196,755</u>	<u>\$ (967,859)</u>

	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)
	<u>\$ 862,895</u>	<u>\$ (1,384,457)</u>

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

<u>Year Ending December 31</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2019	\$ 375,602
2020	281,831
2021	204,635
2022	366,828
	<u>\$ 1,228,896</u>

7. Post-Employment Benefits

Plan Description and Benefits Provided

In addition to pension benefits described in Note 6, the Authority provides post-retirement health care benefits (OPEB plan) to its retired management and union employees. Management 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. Stand-alone financial reports were not issued for the OPEB plan.

As of December 31, 2018, there were 28 active employees in the plan, and 12 retirees met the eligibility requirements to receive OPEBs.

During 2016, the Authority established an OPEB trust. The balance of the trust at December 31, 2018 and 2017 totaled \$1,913,131 and \$1,094,628, respectively. Contributions to the OPEB trust were \$1,058,673 and \$545,711, respectively.

Funding Policy

These benefits are expensed when incurred. For the fiscal years 2018 and 2017, the Authority paid \$118,673 and \$105,711, respectively, in other post-employment benefit (OPEB) costs from general operations and not from the OPEB trust.

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

The following disclosures are presented for 2018 only as they correlate to the adoption of GASB Statement No. 75. As permitted by GASB No. 75, the Authority deemed it not practical to recompute the January 1, 2017 to December 31, 2017 financial statement impact of GASB No. 75 so the 2017 financial statements still reflect the GASB #45 accounting for OPEBs. For December 31, 2017, the accrued OPEB liability as computed under GASB No. 45 was \$2.7 million.

Investment Policy

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 OPEB 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 was 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, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	48.0%	5.25%
International equity	12.0%	4.75%
Fixed income	35.0%	1.25%
Cash	5.0%	0.75%
	<u>100.0%</u>	

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was -6.94%. The money-weighted

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The Authority's net OPEB liability for 2018 and 2017 was measured as of December 31, 2018 and 2017, respectively. The net OPEB liability was determined by actuarial valuations as of those respective measurement dates.

The net OPEB liability for the current year was computed as of the latest actuarial valuation using the following actuarial assumptions:

Actuarial valuation date	12/31/2018
Actuarial cost method	Entry Age Normal
Amortization method	Straight-line
Actuarial assumptions:	
Investment rate of return	6.00%
Assumed retirement age	Earlier of 62 & 10 yrs of service & 30 yrs of service
Mortality	RP-2014 head count, with scale MP
Salary Increase	3.00%
Healthcare cost trends:	
# of years	4 years 4 years 4 years 4 years
Non-Medicare	9% 8% 7% 6%
Medicare	5% 5% 5% 5%

A few assumptions were updated for the December 31, 2018 actuarial report that impacted the calculation of the net OPEB liability. As a result, the net OPEB liability is significantly lower than at January 1, 2016 (the date of the previous actuarial report) due to an actuarial gain of \$2.6 million. The primary reasons for actuarial gain were the change in the discount rate from 3% to 6% (due to the funded OPEB Trust) and the change of the mortality improvement scale from MP-2015 to MP-2018.

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Changes in the Net OPEB Liability

The changes in the net OPEB liability of the Authority for the year ended December 31, 2018 were as follows:

	Total OPEB Liability	Plan Net Position	Net OPEB Liability (Asset)
Balances at 12/31/17	\$ 6,191,466	\$ 1,094,628	\$ 5,096,838
Changes for the year:			
Service cost	120,274	-	120,274
Interest	187,572	-	187,572
Differences between expected and actual experience	550,171	-	550,171
Changes of benefit terms	-	-	-
Changes of assumptions	(2,550,993)	-	(2,550,993)
Employer contributions	-	940,000	(940,000)
Member contributions	-	118,673	(118,673)
Net investment income	-	(122,723)	122,723
Benefit payments, including refunds of employee contributions	(118,673)	(118,673)	-
Other	-	1,226	(1,226)
Balances at 12/31/18	\$ 4,379,817	\$ 1,913,131	\$ 2,466,686
Plan fiduciary net position as a percentage of total OPEB liability			43.68%

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following represents the net OPEB liability calculated using the stated discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
\$ 3,072,900	\$ 2,466,686	\$ 1,970,473

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Sensitivity of the Net OPEB Liability to Changes in the Medical Trend Rate

The following presents the net OPEB liability calculated using the stated medical trend assumption, as well as what the net OPEB liability would be if it were calculated using the medical trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
<u>\$ 1,924,914</u>	<u>\$ 2,466,686</u>	<u>\$ 3,132,369</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$(37,688).

At December 31, 2018, the Authority reported deferred outflows of resources related the difference between expected and actual non-investment experience and the difference between expected and actual investment earnings of \$471,575 and \$181,199, respectively and deferred inflows of resources related to assumption changes of \$2,186,565. The deferred outflows and inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ending December 31</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 123,896	\$ (364,428)
2020	123,896	(364,428)
2021	123,896	(364,428)
2022	123,895	(364,428)
2023	78,596	(364,428)
2024	78,595	(364,428)
	<u>\$ 652,774</u>	<u>\$ (2,186,568)</u>

During 2016, the Authority established an OPEB trust. The balance of the trust at December 31, 2018 and 2017 was \$1,913,131 and \$1,094,628, respectively. Contributions to the trust during 2018 and 2017 totaled \$1,058,673 and \$545,711, respectively.

MONROEVILLE MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018, the Authority incurred costs of approximately \$240,669 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

	2018	2017	2016	2015
Total Pension Liability:				
Service cost	\$ 336,980	\$ 361,666	\$ 375,845	\$ 387,473
Interest	1,079,580	1,066,326	1,025,845	978,404
Differences between expected and actual experience	289,051	(535,731)	(211,757)	(140,564)
Benefit payments, including refunds of member contributions	(733,384)	(617,672)	(571,508)	(513,024)
Net Changes in Total Pension Liability	972,227	274,589	618,425	712,289
Total Pension Liability - Beginning	15,476,149	15,201,560	14,583,135	13,870,846
Total Pension Liability - Ending (a)	<u>\$ 16,448,376</u>	<u>\$ 15,476,149</u>	<u>\$ 15,201,560</u>	<u>\$ 14,583,135</u>
Plan Fiduciary Net Position:				
Plan member contributions	\$ -	\$ -	\$ -	\$ -
Employer contributions	1,203,415	563,712	458,088	388,020
Net investment income	(739,838)	1,947,036	18,720	147,156
Benefit payments, including refunds of member contributions	(733,384)	(617,672)	(571,508)	(513,024)
Net Change in Plan Fiduciary Net Position	(269,807)	1,893,076	(94,700)	22,152
Plan Fiduciary Net Position - Beginning	15,196,538	13,303,462	13,398,162	13,376,010
Plan Fiduciary Net Position - Ending (b)	<u>\$ 14,926,731</u>	<u>\$ 15,196,538</u>	<u>\$ 13,303,462</u>	<u>\$ 13,398,162</u>
Net Pension Liability (Asset) - Ending (a-b)	<u>\$ 1,521,645</u>	<u>\$ 279,611</u>	<u>\$ 1,898,098</u>	<u>\$ 1,184,973</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>90.75%</u>	<u>98.19%</u>	<u>87.51%</u>	<u>91.87%</u>
Covered Payroll	<u>\$ 1,994,351</u>	<u>\$ 2,109,947</u>	<u>\$ 2,181,650</u>	<u>\$ 2,237,758</u>
Net Pension Liability as a Percentage of Covered Payroll	76.30%	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 YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 486,326	\$ 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	1,203,415	563,712	458,088	388,020	395,040	332,784	337,476	356,664	260,000	270,000
Contribution deficiency (excess)	\$ (717,089)	\$ (76,590)	\$ (119,337)	\$ (29,429)	\$ (73,777)	\$ (21,953)	\$ (1)	\$ (1)	\$ (9,051)	\$ (27,501)
Covered employee payroll	\$ 2,140,873	\$ 2,145,718	\$ 2,290,488	\$ 2,424,983	\$ 2,343,173	\$ 2,274,245	\$ 2,259,339	\$ 2,377,057	\$ 2,302,974	\$ 2,260,310
Contributions as a percentage of covered employee payroll	56.21%	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	-4.73%	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	2.50%
Salary increases	4.00%
Investment rate of return (gross return assumption)	7.00%
Mortality - Union Plan	RP-2000 (generational, AA)

MONROEVILLE MUNICIPAL AUTHORITY

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

LAST 10 FISCAL YEARS*

		2018
Total OPEB Liability:		
Service cost	\$	120,274
Interest		187,572
Changes of benefit terms		-
Differences between expected and actual experience		550,171
Changes of assumptions		(2,550,993)
Benefit payments		(118,673)
		(118,673)
Net Changes in Total OPEB Liability		(1,811,649)
Total OPEB Liability - Beginning		6,191,466
Total OPEB Liability - Ending (a)	\$	4,379,817
Plan Fiduciary Net Position:		
Contributions:		
Authority contributions (to trust)	\$	940,000
Member and/or authority contributions for premiums		118,673
Total contributions		1,058,673
Net investment income:		
Interest & dividends		34,382
Net realized gain (loss)		(8,450)
Net unrealized gain (loss)		(134,906)
Investment expense		(13,749)
Total net investment income		(122,723)
Benefit payments		(118,673)
Other		1,226
Net Changes in Plan Fiduciary Net Position		818,503
Plan Fiduciary Net Position - Beginning		1,094,628
Plan Fiduciary Net Position - Ending (b)	\$	1,913,131
Net OPEB Liability (a - b)	\$	2,466,686
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		43.68%
Covered Payroll	\$	2,029,107
Net OPEB Liability as a Percentage of Covered Payroll		121.57%

* 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

SCHEDULE OF AUTHORITY OPEB CONTRIBUTIONS AND INVESTMENT RETURNS

LAST 10 FISCAL YEARS*

<u>Schedule of Authority OPEB Contributions</u>	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 605,858	\$ 464,766	\$ 465,134	\$ 561,999	\$ 580,743	\$ 617,126	\$ 434,483	\$ 522,768	\$ 21,967
Contributions in relation to the actuarially determined contribution	<u>1,058,673</u>	<u>545,711</u>	<u>691,226</u>	<u>110,805</u>	<u>92,553</u>	<u>83,650</u>	<u>76,442</u>	<u>66,254</u>	<u>260,000</u>
Contribution deficiency (excess)	<u>\$ 452,815</u>	<u>\$ 80,945</u>	<u>\$ 226,092</u>	<u>\$ (451,194)</u>	<u>\$ (488,190)</u>	<u>\$ (533,476)</u>	<u>\$ (358,041)</u>	<u>\$ (456,514)</u>	<u>\$ 238,033</u>
Covered employee payroll	<u>\$ 2,029,107</u>	<u>\$ 2,082,729</u>	<u>\$ 2,142,609</u>	<u>\$ 2,291,774</u>					
Contributions as a percentage of covered employee payroll	52.17%	26.20%	32.26%	4.83%					
Investment Returns									
Annual money-weighted rate of return, net of investment expense	-6.94%								

* 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.

Notes to Required Supplementary OPEB Schedules:

Valuation date: The Authority's net OPEB liability is measured as of December 31. The OPEB liability was determined by actuarial valuations as of those measurement dates.

Methods and assumptions used to determine the contribution rates:

Actuarial cost method	Entry Age					
	Normal					
Amortization method	Straight-line					
Actuarial assumptions:						
Investment rate of return	6%					
Assumed retirement age	Earlier of 62 & 10 yrs of service					
	& 30 yrs of service					
Mortality	RP-2014 head count, with scale MP-2018					
Salary Increase	3%					
Healthcare cost trends:						
# of years	4 years	4 years	4 years	4 years	ultimate	
Non-Medicare	9%	8%	7%	6%	5%	
Medicare	5%	5%	5%	5%	5%	

Assumption changes: A few assumptions were updated for the December 31, 2018 actuarial report. The discount rate was updated from 3% to 6% and the mortality scale changed from MP-2015 to MP-2018.

SUPPLEMENTARY INFORMATION

MONROEVILLE MUNICIPAL AUTHORITY

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED DECEMBER 31, 2018

	Original Budget	Final Budget	Actual	Variance
Operating Revenues:				
<u>Water revenues:</u>				
Water sales	\$ 4,962,465	\$ 4,962,465	\$ 4,831,968	\$ (130,497)
Fire protection sales	420,000	420,000	424,436	4,436
Jobbing sales	21,000	21,000	104,160	83,160
Miscellaneous	158,555	158,555	217,515	58,960
Total water revenues	5,562,020	5,562,020	5,578,079	16,059
<u>Sewer revenues:</u>				
Sewage fees	12,225,445	12,225,445	12,336,196	110,751
Jobbing sales	-	-	755	755
Miscellaneous	348,792	348,792	378,166	29,374
Total sewer revenues	12,574,237	12,574,237	12,715,117	140,880
Total operating revenues	18,136,257	18,136,257	18,293,196	156,939
Operating Expenses:				
<u>Water expenses:</u>				
Water purchases	1,189,589	1,189,589	1,134,709	54,880
Power and pumping	51,929	51,929	61,424	(9,495)
Vehicle expense	51,539	51,539	35,690	15,849
System maintenance	1,138,126	1,138,126	912,706	225,420
General and administrative	1,443,601	1,443,601	1,225,110	218,491
Authority Board expenses	8,400	8,400	8,400	-
Depreciation	-	-	1,037,276	(1,037,276)
Total water expenses	3,883,184	3,883,184	4,415,315	(532,131)
<u>Sewer expenses:</u>				
Sewer expenses	6,724,752	6,724,752	6,626,129	98,623
Power and pumping	3,500	3,500	5,502	(2,002)
Vehicle expense	51,539	51,539	35,810	15,729
System maintenance	1,065,126	1,065,126	846,587	218,539
General and administrative	1,458,603	1,458,603	1,277,685	180,918
Authority Board expenses	8,400	8,400	8,400	-
Depreciation	-	-	359,337	(359,337)
Total sewer expenses	9,311,920	9,311,920	9,159,450	152,470
Total operating expenses	13,195,104	13,195,104	13,574,765	(379,661)
Operating Income (Loss)	4,941,153	4,941,153	4,718,431	(222,722)

(Continued)

MONROEVILLE MUNICIPAL AUTHORITY

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED DECEMBER 31, 2018

(Continued)

	Original Budget	Final Budget	Actual	Variance
Nonoperating Revenues:				
Interest income - water	70,000	70,000	63,292	(6,708)
Interest income - sewer	30,000	30,000	63,291	33,291
Total nonoperating revenues	<u>100,000</u>	<u>100,000</u>	<u>126,583</u>	<u>26,583</u>
Capital Contributions:				
Developer contribution revenue - water	-	-	17,186	17,186
Developer contribution revenue - sewer	-	-	-	-
Tap-in fees - water	9,000	9,000	48,000	39,000
Tap-in fees - sewer	18,000	18,000	90,875	72,875
Total capital contributions	<u>27,000</u>	<u>27,000</u>	<u>156,061</u>	<u>129,061</u>
Nonoperating Expenses:				
Interest on bonds - water	-	-	90,417	(90,417)
Interest on bonds - sewer	-	-	433,499	(433,499)
Other expense - water	-	-	7,602	(7,602)
Other expense - sewer	-	-	7,602	(7,602)
Amortization of prepaid bond insurance costs - water	-	-	-	-
Amortization of prepaid bond insurance costs - sewer	-	-	10,415	(10,415)
Amortization of loss on refunding - sewer	-	-	124,290	(124,290)
Total nonoperating expenses	<u>-</u>	<u>-</u>	<u>673,825</u>	<u>(673,825)</u>
Change in Net Position	<u>\$ 5,068,153</u>	<u>\$ 5,068,153</u>	<u>\$ 4,327,250</u>	<u>\$ (740,903)</u>

(Concluded)