

Western Westmoreland Municipal Authority

Audited Financial Statements

Years ended December 31, 2017 and 2016

Western Westmoreland Municipal Authority

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Independent Auditors' Report

Board of Directors
Western Westmoreland Municipal Authority
12441 Route 993
North Huntingdon, Pennsylvania 15642

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Western Westmoreland Municipal Authority (the Authority) 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted the 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the business-type activities of the Western Westmoreland Municipal Authority, as of December 31, 2017 and 2016, and the respective changes in fund net 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 13 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Western Westmoreland Municipal Authority's basic financial statements. The supplemental Schedule of Operating Expenses on page 39 and Investments Held by Trustee on page 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Operating Expenses and Investments Held by Trustee are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Operating Expenses and Investments Held by Trustee are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2018 on our consideration of the Western Westmoreland Municipal Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Western Westmoreland Municipal Authority's internal control over financial reporting and compliance.

Opst and Associates, LLC

April 19, 2018



Western Westmoreland Municipal Authority

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March 6, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

To the Board Members of the WESTERN WESTMORELAND MUNICIPAL AUTHORITY

As management of Western Westmoreland Municipal Authority (WWMA), we offer the readers of our financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2017.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to WWMA's basic financial statements. Since WWMA is engaged in only business type activities, its basic financial statements are comprised of only two components: (1) enterprise fund financial statements and (2), notes to those financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

ENTERPRISE FUND FINANCIAL STATEMENTS, in general, are designed to provide readers with a broad view of WWMA's finances in a manner similar to a private-sector business and contain the following components:

The **STATEMENT OF NET POSITION** presents information on WWMA's assets and liabilities, with the difference being reported as Total Net Position. Over time, increases and/or decreases in Total Net Position may serve as a useful indicator as to whether the financial position of WWMA is remaining the same, improving or deteriorating.

The **STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION** presents information showing how WWMA's net position changed during the most recent 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 resultant cash flow. Therefore, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The **STATEMENT OF CASH FLOWS** provides information in regard to WWMA's net increase (decrease) in cash and cash equivalents and reconciles operating income (loss) to net cash yielding net cash provided (used) by operating activities.

NOTES TO THE FINANCIAL STATEMENTS provides additional descriptive information that is essential to fully understanding the data provided in the financial statements. Items discussed include: (1) Reporting Entity, (2) Summary of Significant Accounting Policies, (3) Cash and Investments, (4) Sewer Charges Receivable, (5) Property, Plant and Equipment, (6) Rights of Way, (7) Unamortized Bond Issue Cost, (8) Sewer Revenue Bonds, (9) PennVest Loan, (10) EDU Studies, (11) Escrow – National Waste and Energy Corporation (Mid America Waste Systems), (12) Pension Plan, (13) Compensated Absences, (14) Related Parties, (15) Other Post-Employment Benefits, and (16) Contingent Liabilities.

In addition to the above, this Audit also contains the Auditor’s Report on WWMA’s Internal Control over Financial Reporting and Compliance with Other Matters as well as their performance of said audit in accordance with generally accepted auditing standards.

Discussion on Major Activities Affecting Long Term Debt:

Cavittsville-Ardara Service Area:

On April 15, 2004, WWMA entered into a Consent Order & Agreement (CO&A) with the Pennsylvania Department of Environmental Protection (PaDEP) for the Cavittsville-Ardara (C-A) portion of its service area that is tributary to the Allegheny County Sanitary Authority (ALCOSAN) System. As of December 31, 2016, WWMA had completed all its requirements under this CO&A.

As a continuing requirement of ALCOSAN’s Consent Decree with the US EPA and the communities it serves, WWMA was notified by the PaDEP on July 20, 2015 that it is being required to enter into a Phase I CO&A to perform certain sewage flow studies, sewer line assessments and completion of a demonstration project that will reduce overall inflow/infiltration into the system tributary to ALCOSAN. The results of this Phase I CO&A would be the basis for future CO&A’s with the Department. Due to on-going discussions with the Department, WWMA has not entered into this CO&A as of this date.

Additionally, due to various differences that have arisen between WWMA and the North Huntingdon Township Municipal Authority (NHTMA) as to the transportation and treatment of sewage in the C-A Service Area, and to settle ongoing litigation between the two parties in that regard, NHTMA, has agreed to acquire from WWMA all its physical facilities located within the C-A Service Area and to generally provide sewage collection services within the C-A Service Area. In that regard, on March 3, 2017, the PaDEP approved the transfer of the Water Quality Management Permit for the Ardara Pump Station and the C-A Sewer System from WWMA to NHTMA. As the permittee, NHTMA is now responsible for operation and maintenance of the pump station and C-A sewer system, however, as of this date, NHTMA has not taken over said O&M. It is now anticipated that this sale and transaction will now be completed by late 2018.

Once this above described transfer is complete, WWMA will no longer be involved with ALCOSAN and its Consent Decree, or the PaDEP for the C-A Service Area.

Brush Creek Service Area:

On June 29, 2010, the Pa Department of Environmental Protection issue a Corrective Action Plan

(CAP) and a Tap Allocation Plan (TAP) request to WWMA. As a result of this CAP, WWMA entered into a CO&A with the PaDEP on September 11, 2011 to plan, design, construct and operate certain system improvements to eliminate all sanitary sewer overflows (SSO's) and combined sewer overflows (CSO's) from its interceptor sewer system and the Brush Creek Treatment Plant by December 2017. Due to the extent and magnitude of the overall project, the Department agreed to the First Amendment to the CO&A implementation schedule which extend the completion date to May 29, 2020.

The implementation of the CO&A consists of three (3) construction phases:

- Phase I – Pump Station and Equalization Project consists of the construction of a 45 Million Gallon per Day (MGD) raw sewage headworks pump station and screening facility to service the treatment plant and a new 7.0 MG equalization storage tank, new dual electrical services, a new odor control unit for the pump station and EQ tank and other miscellaneous plant improvements including replacement of existing odor control units and process piping at the existing treatment plant:

○ Bid opening was September 3, 2015 with contract award on November 16, 2015	
○ Contractor Notice to Proceed issued March 2, 2016	
○ Project startup and completion is scheduled for May 25, 2018	
○ Contract 1-General	Chivers Construction, Inc.
	\$21,485,000.00
○ Contract 1 Change Orders as of 12.31.2017	\$ 719,804.57
○ Contract 2-Electrical	Lanco Electric Company
	\$ 1,996,000.00
○ Contract 2 Change Orders as of 12.31.2017	\$ 23,998.64
○ Contract 3-Mechanical/HVAC	Wayne Crouse, Inc.
	\$ 2,069,000.00
○ Contract 3 Change Orders as of 12.31.2017	<u>\$ 13,647.27</u>
○ Subtotal Contracts	\$26,307,450.48
○ Construction Contingency (10%)	<u>\$ 2,601,718.00</u>
○ Total Construction	\$28,909,168.48
○ Construction Management Service	Wade Trim, Inc.:
○ Construction Management Services (Office Work)	\$ 1,613,000.00
○ Site Observation Fees	<u>\$ 756,600.00</u>
○ Total (Not to Exceed)	\$ 2,369,600.00
○ Owner Controlled Provided Insurance (WWMA)	<u>\$ 380,549.00</u>

TOTAL ESTIMATED PHASE I PROJECT COSTS **\$31,659,317.48**

It should be noted that the Authority has self-funded all engineering and OCIP costs associated with Phase I

- Phase II – Brush Creek Interceptor Improvements Project consists of the total replacement of approximately 22,000 lineal feet of 21” to 33” diameter interceptor sewer with 36”, 42” and 48” diameter pipe, numerous creek crossings and several railroad bored crossings.
 - Bid opening was May 1, 2017 with contract award on June 15, 2017

○ Closing for PENNVEST Loan September 26, 2017	
○ Contractor Notice to Proceed was issued October 16, 2017	
○ Startup and project completion by June 17, 2019	
○ Contract – Greenland Construction, Inc.	\$12,888,200.00
○ Construction Contingency (10%)	<u>\$ 1,288,820.00</u>
○ Total Construction	\$14,177,020.00
○ Construction Management Service Wade Trim, Inc.:	
○ Construction Management Services (Office Work)	\$ 395,009.00
○ Site Observation Fees	<u>\$ 611,021.00</u>
○ Total (Not to Exceed)	\$ 1,006,030.00
○ Owner Controlled Provided Insurance (OCIP) (WWMA):	
○ General Liability Insurance	\$ 93,750.00
○ Excess Liability Insurance	\$ 150,000.00
○ Builders Risk Insurance	<u>\$ 19,096.00</u>
○ Total Owner Controlled Provided Insurance (WWMA)	<u>\$ 262,846.00</u>

TOTAL ESTIMATED PHASE II PROJECT COSTS \$15,445,896.00

It should be noted that the Authority has self-funded all the engineering and OCIP costs associated with Phase II

- Phase III – Paintertown, Bushy Run and Manor Interceptor Improvements Project. In general, this project consists of the total replacement of the above mentioned interceptors with approximately 9,000 lineal feet of 8” to 12” interceptor with 15” and 18” pipe, 8,000 lineal feet of 18” interceptor with 30” pipe, and 820 lineal feet of 12” interceptor with 18” pipe respectively. The CO&A schedule for this project is as follows:
 - Advertise and award construction contracts beginning January 2018
 - Estimated construction duration 7-9 month beginning November 2018
 - Completion and startup by May 2020
 - Preliminary cost estimate - \$10,500,000.00

Western Westmoreland Municipal Authority submitted to the Pennsylvania Department of Environmental Protection (PaDEP) a request for an 18-month extension for Phase III of the COA Project, citing the difficulty in overseeing three (3) phases of the project at one time, the need for additional time in order to obtain required rights-of-way and easements for the project, and a revision to the construction schedule that would place construction during summer and fall months, resulting in a more efficient construction period. The PaDEP has tentatively agreed to amending the CO&A in accordance with the Authority’s request.

Phase I and Phase II Project Financing:

In order to finance Phase I of the CO&A Improvements Project, the Authority applied for and was awarded a PENNVEST loan in the amount of \$19,939,100.00. This amount represented approximately 48% of the total projected project costs. The Owner-Controlled Insurance Program policy and the three actual construction bids were lower than anticipated, and, as a result,

PennVest reduced its funding offer to \$16,231,029.00, while maintaining the 48% funding level. Closing for the PennVest loan occurred on March 31, 2016. To fund the remaining portion of Phase I, the Authority issued two series of sewer revenue bonds in 2015, and a third on January 6, 2016. The first issue (Series of 2015A, dated November 5, 2015, in the amount of \$8,215,000.00) refunded the two prior bond issues (Series of 2010A and Series of 2010B), in order to level debt service payments for existing debt and future debt related to the COA Project. The Authority also realized a present value savings of \$510,194.14 as a result of the refunding. The second bond issue (Series of 2015B, dated December 9, 2015, in the amount of \$9,570,000.00), and the third bond issue (Series of 2016, dated January 6, 2016, in the amount of \$7,585,000.00) provided the remaining necessary Phase I funding. It should be noted that the additional funding for the Phase I project was divided into two bond issues in order to secure bank-qualified status on the bond issues. It should be noted that this PennVest Loan is subordinate to the above referenced bonds.

In order to finance Phase II Brush Creek Interceptor Improvements Project, the Authority applied for a PENNVEST loan in the amount of \$17,323,250.00 on November 17, 2016. On January 25, 2017, PENNVEST presented WWMA with a full funding offer, which would cover construction costs, for Phase II of the COA Project. Due to the construction bid coming in lower than what was anticipated, PENNVEST lowered their funding offer to \$14,177,020.00, while still maintaining 100% funding for the construction portion of the project. Closing for the PENNVEST loan, that is also subordinate the above referenced bonds, occurred on September 26, 2017. The estimated project costs are as follows:

Construction	\$12,888,200.00
Engineering	\$ 1,471,296.00
Contingency	\$ 1,288,820.00
Interest-During-Construction	\$ 184,000.00
Permits	\$ 100,000.00
Legal	\$ <u>40,000.00</u>
TOTAL ESTIMATED PHASE II PROJECT COSTS	\$15,972,316.00

Phase III CO&A Project Financing:

Similar to the Phase II Project, WWMA will be applying for a low interest loan thru PENNVEST for the full project construction cost of approximately \$10.9 Million, while self-funding approximately 1.4 Million in related project costs. Since the PaDEP has tentatively approved the requested project schedule extension, it is anticipated that the PENNVEST funding application will be submitted on or before their February application cut-off date, for approval and loan award at their April 2019 Board Meeting.

Brush Creek Treatment Plant NPDES Discharge Permit:

On May 26, 2017, the PaDEP issued to WWMA its new National Pollution Discharge Elimination System (NPDES) discharge permit effective June 1, 2017 through May 31, 2022. In order to meet more stringent treatment requirements in its Permit related to monitoring and reporting (without discharge limits) of ammonia-nitrogen, reduced residual chlorine limits and Whole Effluent Toxicity (WET) testing, additional plant performance testing is currently being performed by WWMA staff. Results of this additional testing, as well as these more stringent permit discharge requirements, could result in certain process improvements being required, including capital

improvements to the plant's disinfection system and aeration system, and the addition of a chemical feed to improve nutrient removal and solids settling.

Additional information regarding WWMA's Long Term Debt can be found in Notes 3, 5, 7 and 8 of the Audit Report.

Sewer Charges and Sewer Rate History:

Note 4: Sewer Charges Receivable of the Notes to the Financial Statements describes how WWMA receives payment for services rendered to member municipalities:

The Authority covenants and agrees in its Trust Indenture for its current bonds (Series of 2015A), First Supplemental Trust Indenture (Series of 2015B, and Second Supplemental Trust Indenture (Series of 2016), that it will adopt, charge, maintain and collect rates, rents and other charges upon the owners of improved property connected to the sewer system for services rendered and that such sewer rates and other charges imposed will be established so that the amounts received therefrom in each fiscal year of the Authority, together with money otherwise estimated to be available under the provisions of the Indenture for other purposes, will be sufficient:

- a. To pay the reasonable operation, maintenance and administration costs of the Authority in that fiscal year;
- b. To provide an amount equal to 110% of each fiscal year's current annual debt service requirement on the bonds, and any other bonds issued under the Indenture on parity with the bonds.
- c. To pay all amounts due in that fiscal year on any other obligation of the Authority having a claim on the receipts and revenues of the Authority.

If at any time rates are inadequate to satisfy the rate covenant, the Authority will immediately revise its rates and charges to remedy the inadequacy.

User rates (residential and non-residential customers) are uniform for those customers that are within the WWMA Brush Creek Service area and for those customers within the Cavettsville-Ardara Service area respectively. The Service Agreement between WWMA and its member municipalities allows for special rates to be applied to any one of the participating member municipalities if special circumstances warrant, such as a capital addition that only benefits one or more, but less than all of the service municipalities. Up until October 30, 2007, when the Authority Board approved Resolution No. 2007-05 establishing a separate rate district for the Cavettsville-Ardara Area, all customers of WWMA were charged the same sewer rate. This rate district was formed in anticipation of significant rate increases from the Allegheny County Sanitary Sewer Authority (ALCOSAN) to meet its obligations under its Consent Decree with the United States Environmental Protection Agency.

Brush Creek Service Area:

Resolution No. 2015-13 adopted October 20, 2015 supplemented and amended the sewer rates in the Brush Creek System, in order to ensure that debt service costs associated with the CO&A Phase I Project were maintained. This rate increase was phased in over a two year period in an

effort to minimize the effect on the rate payers. Effective with the service date of January 1, 2016, the sewer rates were increased by \$2.50 per month, per EDU. The second half of the rate increase became effective with the service date of October 1, 2016 and also increased the rate by \$2.50 per month, per EDU. A future rate increase is anticipated, for completion of Phase III of the CO&A Improvements Project.

Since WWMA's incorporation on February 29, 1972, there have been only eight rate increases to the Brush Creek System rates, as listed below:

<u>Effective Date</u>	<u>Cost per Equivalent Dwelling Unit (EDU)</u>	
	<u>Monthly</u>	<u>Annually</u>
February 29, 1972	\$ 6.00/EDU	\$72.00/EDU (Original Rate)
April 1, 1981	\$ 8.00/EDU	\$96.00/ EDU
August 1, 1997	\$10.00/EDU	\$120.00/EDU
January 1, 2002	\$14.00/EDU	\$168.00/EDU
January 1, 2006	\$16.65/EDU	\$199.80/EDU
April 1, 2010	\$20.35/EDU	\$244.20/EDU
January 1, 2013	\$25.35/EDU	\$304.20/EDU
January 1, 2016	\$27.85/EDU	\$334.20/EDU
October 1, 2016	\$30.35/EDU	\$364.20/EDU

Of other importance to note was the rate increase of January 1, 2013. This increase was implemented in anticipation of the requirements of the CO&A approved by the PADEP on September 11, 2011. This increase allowed the Authority to self-fund approximately \$2,170,157.00 in design engineering for the CO&A projects, as well as all related permit fees, land costs and building fees. Afterwards, those funds were used to self-fund the construction management services and OCIP costs related to both Phase I and Phase II construction. Finally, those funds provided for the early pay-off of a previous PENNVEST loan that was related to a wet weather project constructed in 2007. It is anticipated that Phase III construction related services will also be funded likewise.

Cavettsville-Ardara Area:

Resolution No. 2016-15 supplemented and amended the sewer rates in the Cavettsville-Ardara Area effective with payments remitted to the Western Westmoreland Municipal Authority on or after January 1, 2017 to \$38.40/EDU/month (\$460.80/EDU/year) in response to an 11% increase in treatment charges by ALCOSAN as well as increases in other operating costs. Sewer rates will remain at the 2017 level, for 2018.

A history of the Cavittsville-Ardara Service Area rates is listed below:

<u>Effective Date</u>	<u>Cost per Equivalent</u>	<u>Dwelling Unit (EDU)</u>
January 1, 2008	\$29.95/Month/EDU	\$359.40/Year/EDU

January 1, 2010	\$30.61/Month/EDU	\$367.32/Year/EDU
January 1, 2013	\$32.94/Month/EDU	\$395.28/Year/EDU
January 1, 2014	\$34.80/Month/EDU	\$417.60/Year/EDU
January 1, 2015	\$36.99/Month/EDU	\$443.88/Year/EDU
January 1, 2017	\$38.40/Month/EDU	\$460.80/Year/EDU

It is projected that the current sewer rates for the Brush Creek Service Area and the Cavettsville-Ardara Service Area will allow the Authority to operate with a positive budget through FY 2018. However, should WWMA incur additional new debt due to issuance of new bonds, current bond refinancing, repayment of the PennVest Loan, compliance with either the NPDES Compliance Schedule or the CO&A, and/or extraordinary plant and interceptor sewer system operation and maintenance costs, then it is recommended that the current sewer rates be reevaluated and adjusted accordingly.

Credit must be given to the Members of the Board of Directors, management, plant staff and professional consultants of WWMA for their diligence in providing expanded services to customers while facing rising operational costs and new and challenging regulatory issues, all while maintaining stable sewer rates since the Brush Creek Plant began accepting sewage flows on December 28, 1977.

In addition to *Note 10: EDU Studies* of these Financial Statements, the following table presents the Equivalent Dwelling Unit (EDU) history of WWMA since 2013. The average EDUs for each year are listed, as reported in that year's respective Sewer System Annual Report and Budget. The definition of one EDU, as stated in the Service Agreement, is equivalent to either one (1) residential unit or 50,000 gallons of water consumption per year for a non-residential unit.

EQUIVALENT DWELLING UNITS SUMMARY 2013 TO 2017

Member Municipality	2013	2014	2015	2016	2017
North Huntingdon-Brush Creek	6321	6261	6360	6481	6437
North Huntingdon Township- Ardara	285	281	279	282	293
Irwin Borough	2580	2519	2545	2577	2502
Penn Township	4793	4911	4934	4895	5039
Manor Borough	1300	1326	1337	1347	1369
North Irwin Borough	397	397	397	398	398
Hempfield Township	335	343	356	346	354
TOTALS	16011	16038	16208	16326	16392

NOTES:

- Reductions in the number of EDU's from year to year are primarily due to fluctuations in commercial and/or industrial water usage.

Summary:

As evident from this Audit Report, Western Westmoreland Municipal Authority has taken actions necessary to respond to regulatory challenges, up-grade and replace its current facilities, and to

promote growth and development in its service area by providing additional hydraulic and organic capacity to its Brush Creek Treatment Plant and sanitary sewer conveyance system. Scheduled systems improvements will further improve facility operations to meet ever demanding regulatory requirements while controlling future operational and maintenance expenses.

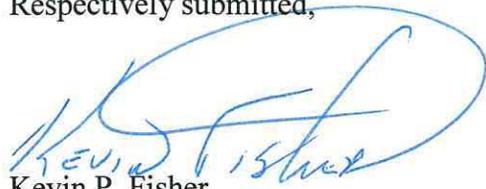
Contact Information:

Any questions regarding this Audit Report should be directed to the General Manager, Western Westmoreland Municipal Authority, 12441 Route 993, North Huntingdon, PA 15642, or by e-mail at kpfisher@wwmaweb.com

Acknowledgments:

I would like to personally thank Mrs. Johanna Wtorkowski, Assistant Secretary-Treasurer for her assistance, dedication, and expertise in preparation for this audit. I would also like to thank Mr. Edward P. Opst, CPA and Ms. Kayla Knupp for their professionalism in completion of this audit.

Respectively submitted,



Kevin P. Fisher
General Manager

Western Westmoreland Municipal Authority

Statements of Net Position

December 31,	2017	2016
Current Assets		
Cash and equivalents held by Authority	\$ 4,600,496	\$ 4,055,369
Cash and equivalents held by Trustee		
2015/2016 Capital improvement fund	3,223,924	2,447,267
Sewer charges receivable - Note 4	1,448,162	1,417,724
Interest receivable	12,487	9,467
Prepaid expenses	32,047	31,074
Miscellaneous receivables	471	235
	<u>9,317,587</u>	<u>7,961,136</u>
Total Current Assets	9,317,587	7,961,136
Restricted Assets		
Cash and equivalents held by Authority		
PennVest account	9,600	500
Ardara system capacity fee account	6,000	6,000
Expansion guarantee fund - Project area II	471,194	146,665
Escrow Mid-America Waste Systems - Note 10	346,887	1,635
Sick pay reserve	122,670	79,251
Cash and equivalents held by Trustee		
2015 Debt service fund	1,202	711
2015/2016 Debt service fund reserve	13,031	13,482
2016 Debt service fund	124	-
2015 Construction fund	-	846,143
2016 Construction fund	3,893,257	6,924,687
Investments held by Authority		
Expansion guarantee fund - Project area II	-	316,998
Escrow Mid-America Waste Systems - Note 10	-	341,547
Investments held by Trustee		
2015/2016 Debt service reserve fund	2,215,780	2,197,800
Assessments receivable	13,779	15,498
	<u>7,093,524</u>	<u>10,890,917</u>
Total Restricted Assets	7,093,524	10,890,917
Property and Equipment - at cost - net - Note 5	46,375,442	28,762,290
Other Assets		
Prepaid bond insurance	90,904	94,542
	<u>90,904</u>	<u>94,542</u>
Total Assets	62,877,457	47,708,885
Deferred Outflow of Resources		
Deferred loss on bond refunding-2005 issuance	202,036	241,134
Deferred outflow of resources - pension	391,206	433,814
	<u>593,242</u>	<u>674,948</u>
Total Deferred Outflow of Resources	593,242	674,948
	<u>\$ 63,470,699</u>	<u>\$ 48,383,833</u>

December 31,	2017	2016
Current Liabilities		
Accounts payable	\$ 2,751,610	\$ 639,940
Construction payable	1,244,314	854,871
Current portion of bonds payable	1,055,000	1,325,000
Current portion of PennVest loan payable	127,275	-
Accrued bond interest	149,620	159,513
Accrued PennVest interest	9,100	-
Accrued payroll and related liabilities	14,736	19,581
Escrow - Ardara system capacity fee liability	6,000	6,000
Total Current Liabilities	<u>5,357,655</u>	<u>3,004,905</u>
Long-term Liabilities		
Bonds payable	21,775,000	22,830,000
Loan payable - PennVest	10,641,484	-
Escrow - National Waste and Energy Corporation payable	346,887	345,200
Accrued OPEB	157,143	153,386
Net pension liability	480,536	401,971
Long-term sick pay liability	212,803	208,089
Total Long-term Liabilities	<u>33,613,853</u>	<u>23,938,646</u>
Total Liabilities	<u>38,971,508</u>	<u>26,943,551</u>
Deferred Inflow of Resources		
Deferred inflow of resources - pension	169,751	109,007
	<u>39,141,259</u>	<u>27,052,558</u>
Net Position		
Invested in capital assets - net of related debt	17,284,952	13,018,442
Restricted for debt service	2,230,137	2,211,993
Unrestricted	4,814,351	6,100,840
Total Net Position	<u>24,329,440</u>	<u>21,331,275</u>
Total Liabilities and Net Position	<u>\$ 63,470,699</u>	<u>\$ 48,383,833</u>

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

Western Westmoreland Municipal Authority

Statements of Revenues, Expenses, and Changes in Fund Net Position

For the Years Ended December 31,	2017	2016
Operating Revenues		
Sewer rentals	\$ 5,885,894	\$ 5,439,733
Sewer rentals - Ardara system	129,279	126,730
Trafford Borough revenues	7,316	7,315
Developer review fee income	600	450
Miscellaneous income	529	154
	<u>6,023,618</u>	<u>5,574,382</u>
Total Operating Revenues		
Operating Expenses	<u>2,950,636</u>	<u>2,988,593</u>
Operating Income	<u>3,072,982</u>	<u>2,585,789</u>
Non-Operating Revenues (Expenses)		
Interest and investment income	67,140	24,058
Gain (loss) on sale of equipment	-	300
Bond interest	(186,473)	(200,173)
Deferred loss	(39,098)	(41,854)
Bond discount and expense	-	(205,096)
Bond insurance	(3,639)	(3,093)
	<u>(162,070)</u>	<u>(425,858)</u>
Total Non-Operating Revenues (Expenses)		
Contributions and Transfers		
Tap-ins and assessments	1,753	2,518
Capacity charges	85,500	234,000
	<u>87,253</u>	<u>236,518</u>
Total Contributions and Transfers		
Change in Net Position	<u>2,998,165</u>	<u>2,396,449</u>
Net Position - Beginning of Year	<u>21,331,275</u>	<u>18,934,826</u>
Net Position - End of Year	<u>\$ 24,329,440</u>	<u>\$ 21,331,275</u>

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

Western Westmoreland Municipal Authority

Statements of Cash Flows

For the Years Ended December 31,	2017	2016
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 5,992,051	\$ 5,362,999
Payments to suppliers and vendors	(763,179)	(817,834)
Payments to employees	(1,192,768)	(1,345,971)
Other operating revenues	1,128	605
Cash Provided by (Used for) Operating Activities	4,037,232	3,199,799
Cash Flows from Capital and Related Financing Activities		
Proceeds from PennVest Loans	10,768,759	-
Purchase of property and equipment	(15,350,587)	(8,312,421)
Principal payments on bonds - Series 2015	(1,325,000)	(1,215,000)
Interest payments on bonds - Series 2015	(525,751)	(657,062)
Proceeds from bond issuance - Series 2016	-	7,347,697
Interest payments on bonds - Series 2016	(239,911)	-
Interest payments on PennVest loan	(24,520)	-
Customer contributions	88,972	235,285
Financing Activities	(6,608,038)	(2,601,501)
Cash Flows from Investing Activities		
Interest and investment income	96,917	43,349
Proceeds from sale of investments	2,856,345	2,850,872
Purchase of investments	(2,215,781)	(5,051,922)
Cash Provided by (Used for) Investing Activities	737,481	(2,157,701)
Increase (Decrease) in Cash	(1,833,325)	(1,559,403)
Cash and Equivalents - Beginning of Year	14,521,710	16,081,113
Cash and Equivalents - End of Year	\$ 12,688,385	\$ 14,521,710
Cash - Unrestricted	\$ 7,824,420	\$ 6,502,636
Cash - Restricted	4,863,965	8,019,074
Cash and Equivalents - End of Year	\$ 12,688,385	\$ 14,521,710

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

Western Westmoreland Municipal Authority

Statements of Cash Flows (Continued)

For the Years Ended December 31,	2017	2016
Reconciliation of Operating Income to Net Cash		
Provided by (Used for) Operating Activities		
Operating income	\$ 3,072,982	\$ 2,585,789
Adjustments to reconcile operating income to net cash provided by (used for) operating activities		
Depreciation expense	803,855	825,614
Pension expense	181,919	(20,214)
Changes in:		
Accounts receivable	(30,438)	(210,779)
Miscellaneous receivables	(236)	214
Prepaid expenses	(972)	1,732
Accounts payable	6,496	(9,328)
Accrued payroll and related taxes	3,626	26,771
	<u>3,626</u>	<u>26,771</u>
Cash Provided by (Used for) Operating Activities	<u>\$ 4,037,232</u>	<u>\$ 3,199,799</u>

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

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 1 - Reporting Entity

The Western Westmoreland Municipal Authority ("WWMA" or the "Authority") was incorporated as a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipal Authority's Act. The Authority has no stockholders and the revenues or other cash received must be disbursed for specific purposes in accordance with the provisions of the trust indenture agreement with the holders of its bonds. The Authority has entered into service agreements with the North Huntingdon Township Municipal Authority, the Borough of Irwin, the Penn Township Sewage Authority, the Borough of Manor, the Hempfield Township Municipal Authority (now Municipal Authority of Westmoreland County), and the North Irwin Borough Municipal Authority. Under such agreements, the Authority will construct a sewage treatment plant and necessary trunk lines appurtenant thereto, for the parties to the service agreements.

The members of the Authority's Board (the "Board"), a ten-member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities within the jurisdiction of the Authority. Members are appointed to the Authority's Board by the various authorities that are parties to the service agreement. As such, the members of the WWMA Board may also serve as board members or employees for their appointing authority or municipality.

The Authority is not included in any other governmental "reporting entity", as defined in Section 2100, "Codification of Governmental Accounting and Financial Reporting Standards", since the Board members are appointed by the municipalities which they represent and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

The Board has evaluated its relationship with the various municipalities for which service agreements have been entered, to determine if the financial information of those municipalities should be included in the financial statements of the Authority. Based on this evaluation, none of the municipalities have been included as a component unit of the Authority's reporting entity.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units. The most significant accounting policies are summarized below:

Basis of Presentation

The statements of net position and statements of revenues, expenses, and changes in fund net position display information about the reporting government as a whole. The statements distinguish between governmental and business-type activities. Government activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Authority, as a whole, is comprised of only one business type activity (proprietary fund).

Proprietary funds are used to account for operations which are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and the measurement of financial activity focuses on net income.

These financial statements include the implementation of *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for financial statements for periods beginning after December 15, 2011. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State & Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Deferred outflows of resources are defined as a consumption of net assets by a governmental entity that is applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred inflows of resources are defined as an acquisition of net assets by a governmental entity that is applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

With the implementation of this Statement, the Authority is required to present a Statement of Net Position which is comprised of three components: net investment in capital assets, a restricted component, and an unrestricted component.

In 2013, the Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for financial statements for periods beginning after December 15, 2012. This statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. As a result of the implementation of GASB 65, a restatement of beginning net position as of December 31, 2013 was made.

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

In 2015, the Authority has implemented GASB issued Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB 27*. The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

Measurement Focus

The Authority, as a proprietary fund, is accounted for on a cost of services measurement focus. All assets and liabilities (current and noncurrent) associated with the activity of the Authority are included on its statement of net position.

Basis of Accounting

The accrual basis of accounting was used to prepare the accompanying comparative financial statements, which require, among other things, the recognition of depreciation and interest expense.

Sewer charges are recorded as receivable in the period when earned regardless of the period of collection subsequent to year end. Expenditures are recognized when incurred.

Federal and state grants and aids are recognized as revenues in the period in which expenditures are incurred, if applicable, or when the Authority is entitled to the grants and aids. However, intergovernmental grants are subject to audit and adjustment by the grantor agency. Grant revenues received for expenses which are disallowed are repayable to the grantor.

Investment income is recognized as revenue when earned. Interest payable on the long-term debt and bond issues are recorded when incurred.

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Authority is authorized to invest in U.S. Treasury Bills (short term obligations of the Federal Government) and time deposits of insured institutions.

Sewer Charges Receivable

The receivable balances presented in the accompanying statements of financial position are recorded at net realizable value. The Authority records uncollectible accounts through direct write off.

Budgets

The Authority prepares a budget at the beginning of each year on the cash basis. The budget is used for internal reporting purposes and for establishment of sewer charge rates.

Restricted Component of Net Position

Restricted components of net position are composed of restricted assets reduced by reported claims against those assets and are classified according to the related components.

Cash and Temporary Investments held by Trustee

In accordance with the terms of the Trust Indentures securing the Revenue Bonds, monies of the Authority are accounted for by trustee-held cash accounts segregated for specific use and for the security of the bondholder, which are maintained by independent trustees on the cash basis of accounting, which does not differ materially from the accrual basis as recognized for local government accounting for debt service funds.

Plant, Property, and Equipment

Fixed assets of the Authority are recorded at cost and depreciated over their estimated useful lives on the straight-line basis. The cost of maintenance and repairs is charged to operations as incurred. Significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. At time of disposal, if the assets retired are not fully depreciated, the Authority recognizes the gain or loss on disposal in income for the period.

Use of Estimates

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

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent events have been evaluated through April 19, 2018, which is the date the financial statements were available to be issued. The Authority is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Note 3 - Cash and Investments

The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage on deposits. The total of all time and savings accounts, including NOW, MMDA, Savings and Certificates of Deposit are covered under FDIC insurance up to \$250,000. Separately, the total of all demand deposits owned by a public unit and held by the public unit's official custodian in an insured depository institution within the state in which the public unit is located are also insured up to \$250,000.

Deposits in excess of the totals protected under FDIC insurance coverage are not left unprotected in the State of Pennsylvania. The Authority's deposits are protected under State Law, the Deposit of Public Monies Act 72 of the Commonwealth of Pennsylvania. Under this law, each bank is required to set aside a portion of the securities that the bank owns in a Pooled Public Funds account in order to protect these public monies. Accordingly, the Authority's deposits at First National Bank are properly collateralized.

At December 31, 2017, deposits in checking and savings (money market) accounts with First National Bank totaling \$5,556,747 were FDIC insured up to \$250,000.

At December 31, 2017 deposits totaling \$65,427 were invested at US Bank in shares of the First American Government Obligation Fund CL Y. Shares of the First American Government Obligation Fund CL Y have characteristics of a mutual fund and are not bank deposits or obligations of, or guaranteed or endorsed or otherwise supported by US Bank. Shares of the First American Government Obligation Fund CL Y are not insured or guaranteed by the U.S. Government, FDIC or any governmental agency or state. An investment in First American Government Obligation Fund CL Y involves investment risk including the possible loss of principal amounts invested. The Authority's deposits in the First American Government Obligation Fund CL Y are rated AAAM by Standard & Poor's and Aaa-mf by Moody's Investors Service.

Custodial credit risk for *deposits* is the risk that, in the event of a failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority does not have a policy regarding custodial credit risk; however, deposits are in compliance with the Pennsylvania Deposit of Public Monies Act 72.

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 3 - Cash and Investments (Continued)

As of December 31, 2017, \$5,306,747 of the Authority's bank balance of \$5,556,747 at First National Bank was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging financial institution's agent, but not in the Authority's name.	\$ <u>5,306,747</u>
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Investments - The Authority is authorized to invest in U.S. Treasury Bills and Notes, short-term obligations of the Federal government, and time deposits of insured institutions.

Investments are carried at fair value. The investments that are represented by specific identifiable investment securities are classified as to risk by the three categories described below:

Interest Rate Risk - Interest rate risk arises from investments in debt investments and is defined as "The risk that changes in interest rates will adversely affect the fair value of the investment." The Authority does not have a policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2017, all investments will mature within 1 year.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Authority.

Custodial Credit Risk - Custodial credit risk for *investments* is the risk that in the event of the failure of a custodial agent, the Authority may not be able to recover the value of investments or collateral securities that are in the possession of that outside party. All investments of the Authority are held in safekeeping or custodial accounts at approved safekeeping agents of the Authority in the Authority's name.

As of December 31, 2017, the Authority's investments in First American Government Obligation Fund CL Y were exposed to Custodial Credit Risk as follows:

Uninsured and uncollateralized	\$ <u>65,427</u>
Total	\$ <u>65,427</u>

Note 4 - Sewer Charges Receivable

The service agreement provides that the Authority is entitled to sewer service charges from each member municipality and/or their municipal authority. The member municipalities receive billing information after the service is rendered. This results in a delay in the transmittal of sewer charge revenues to the Authority.

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 4 - Sewer Charges Receivable (Continued)

The receivables at December 31, 2017, were computed from actual receivables determined subsequent to the balance sheet date and, secondly, by calculating the amount due for which billing information is not yet available.

Note 5 - Property, Plant, and Equipment

Property, plant, and equipment are as follows as of December 31, 2017:

<u>Asset</u>	Life In Years	Balance 1/1/17	Additions	Deletions	Balance 12/31/17
Plant and system	40	\$45,847,316	\$18,260,858	\$ -	\$64,108,174
Plant improvements	20	312,489	-	-	312,489
Office building improvements	20	42,079	-	-	42,079
Equipment	5 to 15	435,483	8,984	-	444,467
Office equipment	5 to 10	67,347	-	-	67,347
Land and rights of way	N/A	370,845	147,167	-	518,012
Vehicles	5	241,287	-	-	241,287
Total property, plant and equipment		47,316,846	18,417,009	-	65,733,855
Accumulated Depreciation		(18,554,560)	(803,855)	-	(19,358,415)
Property, Plant and Equipment, Net		<u>\$28,762,286</u>	<u>\$17,613,154</u>	<u>\$ -</u>	<u>\$46,375,440</u>

Construction in progress and deferred construction contracts are capitalized and depreciated when the project is completed. Interest paid on bonds and notes payable obtained for construction purposes is capitalized as part of the cost of acquisition.

Note 6 - Rights of Way

In the course of construction of the sewage interceptors, it was necessary for the Authority to condemn certain rights of way or easements through private property. The costs associated with these acquisitions are not presently ascertainable and, in the opinion of counsel, will not be ascertainable in the future.

Note 7 - Sewer Revenue Bonds

Series of 2015A

On November 5, 2015, the Authority issued \$8,215,000 of Sewer Revenue Bonds, Series A of 2015. The Series of 2015A bonds bear interest at .50 percent to 4.0 percent payable on April 15 and October 15 and mature in varying amounts from October 15, 2016 through 2028.

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 7 - Sewer Revenue Bonds (Continued)

Series of 2015A (Continued)

The Series of 2015A Sewer Revenue Bonds were issued to defease the Series of 2010A and 2010B Sewer Revenue Bonds, the balance of which was \$140,000, which was used to provide funds to pay the cost of issuance of such bonds.

Series of 2015B

On December 9, 2015, the Authority issued \$9,570,000 of Sewer Revenue Bonds, Series B of 2015. The Series of 2015B bonds bear interest at 3.0 percent to 3.7 percent payable on April 15 and October 15 and mature in varying amounts from October 15, 2028 through 2040. The Series of 2015B Sewer Revenue Bonds were issued to provide funds for the Consent Order and Agreement (COA) Phase I Project which consists of the construction of a pumping station and an equalization tank.

Series of 2016

On January 5, 2016, the Authority issued \$7,585,000 of Sewer Revenue Bonds, Series of 2016. The Series of 2016 bonds bear interest at 1.1 percent to 3.85 percent payable on April 15 and October 15 and mature in varying amounts from October 15, 2017 through 2040. The Series of 2016 Sewer Revenue Bonds were issued to provide funds for the Consent Order and Agreement (COA) Phase I Project which consists of the construction of a pumping station and an equalization tank.

The following schedule presents the transactions affecting the Authority's Sewer Revenue Bonds during the year ended December 31, 2017:

<u>Bond Series</u>	<u>Balance at 1/1/17</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at 12/31/17</u>
2015A	\$ 7,000,000	\$ -	\$ 1,135,000	\$ 5,865,000
2015B	9,570,000	-	-	9,570,000
2016	7,585,000	-	190,000	7,395,000
	<u>\$ 24,155,000</u>	<u>\$ -</u>	<u>\$ 1,325,000</u>	<u>\$ 22,830,000</u>

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 7 - Sewer Revenue Bonds (Continued)

The following presents future debt service requirements of the Sewer Revenue Bonds Series of 2015A, 2015B, and 2016:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	4.000%	\$ 1,055,000	\$ 718,000	\$ 1,773,000
2019	2.000%	705,000	678,000	1,383,000
2020	2.000%	720,000	662,000	1,382,000
2021-2025	2.000- 2.500%	3,715,000	3,071,000	6,786,000
2026-2030	2.625- 3.050%	4,080,000	2,587,000	6,667,000
2031-2035	3.000- 3.450%	4,755,000	1,911,000	6,666,000
2036-2040	3.000- 3.700%	<u>7,800,000</u>	<u>969,000</u>	<u>8,769,000</u>
		\$ <u>22,830,000</u>	\$ <u>10,596,000</u>	\$ <u>33,426,000</u>

Note 8 - PennVest Loans

In August 2015, the Authority accepted a PennVest funding offer related to the COA Phase I construction project in the amount of \$19,939,100. Actual construction bids and insurance costs were lower than expected. As a result, PennVest reduced the funding offer to \$16,231,029. The loan closed on March 31, 2016. The loan bears interest at 1.055 percent for years 1 through 5 and 1.835 percent for years 6 through maturity (October 2038). The Authority is obligated to pay interest only on first day of each month based on the debt proceeds. Payments of principal and interest will begin on the earlier of the scheduled amortization date (November 1, 2018) or the first day of the first calendar month following the completion of the project. The balance payable on this loan at December 31, 2017 was \$10,619,359.

In September 2017, the Authority accepted a PennVest funding offer related to the COA Phase II construction project in the amount of \$14,177,020. The loan closed on July 26, 2017. The loan bears interest at 1.000 percent for years 1 through 5 and 1.743 percent for years 6 through maturity (November 2039). Payments of principal and interest will begin on the earlier of the scheduled amortization date (December 1, 2019) or the first day of the first calendar month following the completion of the project. The balance payable on this loan at December 31, 2017 was \$149,400.

Note 9 - EDU Studies

The Authority may from time to time, undertake an examination of billable EDU's reported by member municipalities. As a result of this examination, if it is determined that the Authority is entitled to additional sewer rentals, additional EDU's will be incorporated in the financial statements at that time.

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 10 - Escrow - National Waste and Energy Corporation (Mid-America Waste Systems)

On November 30, 1988, the Authority entered into an agreement with National Waste and Energy Corporation, where National Waste and Energy Corporation agreed to provide and maintain in force bonding with the Authority during the period of time that effluent or discharge emanates from its landfill and enters the facilities of Penn Township and the Authority and for a period of ten (10) years after the final closure of the site unless released in whole or in part by the Authority.

The full amount of the bond of \$172,320 has been paid to the Authority. The Authority has escrowed these funds in a restricted cash account which accumulates interest. Escrowed deposits and interest are payable to National Waste and Energy Corporation at the termination of the agreement.

Note 11 - Pension Plan

Plan Description

The Authority's pension plan is a single-employer defined benefit pension plan controlled by the provisions of Resolution No. 2002-1, adopted pursuant to Act 15 of 1974. The plan participates in the Pennsylvania Municipal Retirement System (PMRS) which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans.

PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Plan Benefits

The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan.

Plan membership consisted of the following at December 31, 2016:

Inactive employees or beneficiaries	
currently receiving benefits	3
Inactive employees entitled to but not	
yet receiving benefits	1
Active employees	<u>11</u>
Total	<u>15</u>

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 11 - Pension Plan (Continued)

Contributions

Act 205 requires that annual contributions be based upon the plan's Minimum Municipal Obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation.

In accordance with the plan's governing resolution, members are required to contribute to the plan. For the year ended December 31, 2017, employees contributed 5.45 percent of their gross wages to the plan for a total employee contribution of \$36,679.

On October 15, 1998, the Authority adopted Resolution 98-3 which amended provisions in the Authority's pension plan effective October 1, 1998. In accordance with the amendment, plan members began contributing 2 percent of their compensation effective October 1, 1998. The plan members' contribution requirement increased to 3.7 percent of their compensation effective October 1, 1999 and increased to 5.45 percent effective October 1, 2000. On November 15, 2011, the Authority adopted Resolution 2011-08 which amended provisions in the Authority's pension plan related to the benefit calculation effective October 1, 2011. Effective July 1, 2016, new employees are eligible to participate in the Authority defined contribution plan (PMRS cash basis plan).

Net Pension Liability

The Authority's Net Pension Asset was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The actuarial assumptions used in this report are based on the PMRS Experience Study for the period covering January 1, 2005 through December 31, 2008 issued by the actuary in July 2010 as well as subsequent Board approved assumption changes, such as the decrease in the regular interest to 5.5% for the January 1, 2013 actuarial valuation.

A summary of the key assumptions and methods used to determine the TPL and contribution rates are as follows:

- Actuarial Cost Method: Entry Age
- Amortization Period: Level dollar based upon the amortization period in act 205
- Asset Valuation Method: Based upon the municipal reserves
- Discount Rate: 5.5%
- Inflation: 3.0%
- Salary increases: age related scale with merit and inflation component
- COLA Increases: 3.0% for those eligible for a COLA
- Pre-Retirement Mortality: Males: RP 2000 with a 1 year set back / Females: RP 2000 with a 5-year set back

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 11 - Pension Plan (Continued)

	Change in Net Pension Liability		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/15	\$ 4,811,419	\$ 4,409,448	\$ 401,971
Changes for the year:			
Service cost	163,916		163,916
Interest	270,546		270,546
Changes of benefits	212,725		212,725
Changes of assumptions	117,829		117,829
Differences between expected and actual experience	(85,855)		(85,855)
Contributions – employer		196,998	(196,998)
Contributions – PMRS assessment		320	(320)
Contributions – employee		45,367	(45,367)
PMRS investment income		269,298	(269,298)
Market value investment income		102,126	(102,126)
Transfers			
Benefit payments	(114,165)	(114,165)	-
PMRS administrative expense		(320)	320
Additional administrative expense		(13,193)	13,193
Net changes	<u>564,996</u>	<u>486,431</u>	<u>78,565</u>
Balances at 12/31/16	\$ <u>5,376,415</u>	\$ <u>4,895,879</u>	\$ <u>480,536</u>

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

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 11 - Pension Plan (Continued)

Sensitivity of Net Pension Liability to Changes in Discount Rate

	1% Decrease 4.25%	Discount Rate 5.25%	1% Increase 6.25%
Total pension liability	\$ 5,923,319	\$ 5,376,415	\$ 4,910,520
Plan fiduciary net pension	4,895,879	4,895,879	4,895,879
Net pension liability	\$ 1,027,440	\$ 480,536	\$ 14,641
 Plan fiduciary net position as a percentage of the total pension liability	 82.65%	 91.06%	 99.70%

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued PMRS financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to Pensions

For the year ended December 31, 2017, the Authority recognized pension expense of \$371,684.

At December 31, 2017, The Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Schedule of Collective Deferred Inflows and Outflows

	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 169,751
Changes in actuarial assumptions	114,491	-
Net differences between projected and actual earnings on pension plan investments	86,948	-
Total	\$ 201,439	\$ 169,751

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

Year ending <u>December 31,</u>	
2017	\$ 25,649
2018	\$ 25,649
2019	\$ 24,198
2020	\$ (31,052)
2021	\$ (10,626)
Thereafter	\$ (2,130)

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 11 - Pension Plan (Continued)

The recognition period for experience and assumptions change gains/losses is 9 years.

Required Supplementary Information

Schedule of Changes in Net Position Liability

	Measurement Year Ended 12/31/16	Measurement Year Ended 12/31/15
<u>Total Pension Liability</u>		
Service cost (beginning of year)	\$ 163,916	\$ 173,675
Interest (includes interest on service cost)	270,546	255,403
Changes of benefit terms	212,725	
Differences between expected and actual experience	(85,855)	
Changes of assumptions	117,829	12,540
Transfers		
Benefit payments, including refunds of employee contributions	<u>(114,165)</u>	<u>(197,783)</u>
Net change in total pension liability	564,996	243,835
Total pension liability – beginning	<u>4,811,419</u>	<u>4,567,584</u>
Total pension liability – ending	<u>\$ 5,376,415</u>	<u>\$ 4,811,419</u>
<u>Plan fiduciary net position</u>		
Contributions – employer	\$ 196,998	\$ 194,376
Contributions – PMRS assessment	320	320
Contributions – employee	45,367	47,334
PMRS investment income	269,298	258,247
Market value investment income	102,126	(276,237)
Transfers		
Benefit payments, including refunds of member contributions	(114,165)	(197,783)
PMRS administrative expense	(320)	(320)
Additional administrative expense	<u>(13,193)</u>	<u>(10,766)</u>
Net change in plan fiduciary net position	486,431	15,171
Plan fiduciary net position – beginning	<u>4,409,448</u>	<u>4,394,277</u>
Plan fiduciary net position – ending	<u>4,895,879</u>	<u>4,409,448</u>
Net pension liability - ending	<u>\$ 480,536</u>	<u>\$ 401,971</u>
Plan fiduciary net position as a percentage of the total pension liability	91.06%	91.65%
Covered employee payroll	\$ 832,418	\$ 868,516
Net pension liability as a percentage of covered employee payroll	57.73%	46.28%

An actuarially determined contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The Actuarially Determined Contribution provide is based upon the Minimum Municipal Obligation (MMO) as defined in ACT 205 which conforms to these standards.

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 11 - Pension Plan (Continued)

Notes to schedule

Valuation Date: Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the Actuarially Determined Contribution for calendar year 2017 is based upon the January 1, 2015 actuarial valuation.

Following is a 10-year history of contributions made by the Authority based on the MMO:

<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$131,875	100%
2009	\$ 94,871	100%
2010	\$ 89,375	100%
2011	\$ 89,942	100%
2012	\$ 98,502	100%
2013	\$116,089	100%
2014	\$117,071	100%
2015	\$144,696	135% *
2016	\$147,318	134% *
2017	\$139,767	133% *

* Percent includes additional \$50,000 contribution

Note 12 - Compensated Absences

Employees can earn one day of sick pay for each month up to twelve days per year. The number of days an employee can carry over from year to year is unlimited. Any unused days are paid out at the employee's current rate of pay upon termination. At December 31, 2017, the Authority recognized \$212,803 in accrued compensated absences. The Authority began funding this liability in 2015. The sick pay reserve account balance was \$122,670 as of December 31, 2017 and \$79,251 as of December 31, 2016.

Note 13 - Other Post-Employment Benefits

In addition to their pension benefits, employees who qualify for retirement benefits are eligible for medical benefits beginning at age 62 until age 65.

The Authority shall pay 100 percent of the cost of family coverage for hospitalization, surgical, and major medical insurance premiums for the retiree from the day the retiree reaches age 62 until the earlier of the retiree's death or until the retiree reaches age 65. Retirees are not required to contribute to the plan premiums.

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 13 - Other Post-Employment Benefits (Continued)

Upon reaching age 65, the Authority will pay the retiree \$1,500 annually (\$125 per month) until death. Medical Plans Available: PPO Blue Option II with Rx administered by the Municipal Employers Insurance Trust.

2017 Annual Premium Schedules:

Single	\$ 7,952
Parent/Child(ren)	\$16,342
Husband/Wife	\$21,984
Family	\$23,865
Husband/Wife Retiree	\$26,205

Funding Policy

The Authority does not advance fund the Plan. Payments toward the liabilities are made on a pay-as-you-go annual basis.

Annual OPEB cost and Net OPEB Obligation

The Authority's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a maximum period of thirty (30) years. A shorter period may be used. The Authority uses a 30-year amortization period.

The following table shows the components of the Authority's annual OPEB cost for 2017, the actual amount contributed to the plan, and changes in the Authority's OPEB obligation to the plan.

Annual Required Contribution (ARC)	\$ 32,889
Interest on Net OPEB obligation	6,902
Adjustment to ARC	<u>(9,417)</u>
Annual OPEB cost	30,374
Projected contributions made	<u>(26,617)</u>
Estimated increase in Net OPEB obligation	3,757
Net OPEB obligation at beginning of year	<u>153,386</u>
Net OPEB obligation at end of year	\$ <u>157,143</u>

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 13 - Other Post-Employment Benefits (Continued)

The following table presents the Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year and two preceding years:

<u>Year Ended December</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Funded</u>	<u>Net OPEB Obligation</u>
2017	\$32,889	20.93%	\$157,143
2016	\$32,889	21.44%	\$153,386
2015	\$32,889	22.18%	\$148,305

Funding Status and Funding Progress

As of January 1, 2015, the date of the most recent actuarial valuation, the Authority's unfunded actuarial accrued liability (UAAL) was \$330,997. The annual payroll for active employees covered by the Plan in the actuarial valuation was \$836,618 for a ratio of UAAL to covered payroll of 39.56 percent. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan 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.

Method and Assumptions

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

Western Westmoreland Municipal Authority

Notes to the Financial Statements

Note 13 - Other Post-Employment Benefits (Continued)

The following simplifying assumptions were made:

Interest Rate – 4.5% per year

Annual Trend Rate – 5.0% per year

Mortality - RP-2000 Combined Health Mortality Table with Blue Collar Adjustment.

Mortality Improvement – 75% of Scale AA

Withdrawal – Table T-1, Actuary's Pension Handbook

Disablement – 40% of the rates of disablement from Advanced Pension Tables

Valuation Retirement Age – 20% of future retirees are assumed to retire at ages 62, 63, and 64, 40% at age 65 and 100% are assumed to retire upon reaching age 67, or attained age, if later.

Percentage Electing Coverage – 75% of future OPEB recipients elect husband/wife coverage, 25% elect single coverage.

Spouse Age – Female spouse assumed to be 3 years younger than male spouse



**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Governmental Auditing Standards**

Board of Directors
Western Westmoreland Municipal Authority
12441 Route 993
North Huntingdon, Pennsylvania 15642

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Western Westmoreland Municipal Authority (the Authority), 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, and have issued our report thereon dated April 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Opst and Associates, LLC

April 19, 2018

SUPPLEMENTAL INFORMATION

Western Westmoreland Municipal Authority

Schedules of Operating Expenses

For the Years Ended December 31,	2017	2016
Operating Expenses		
Depreciation	\$ 803,855	\$ 825,614
Salaries	721,790	839,410
Employee benefits	248,106	258,289
Utilities	217,958	214,293
Pension expense	371,684	177,104
Chemicals	98,251	76,307
ALCOSAN treatment	90,629	83,916
System maintenance	85,619	130,882
Professional services	81,390	102,639
Payroll taxes	55,645	64,267
Insurance	29,609	30,375
Analytical and lab expense	25,632	27,121
Office expense	24,788	22,252
Computer expense	23,795	25,980
Workers compensation	17,219	21,724
Penalties and fines	14,500	16,000
Sludge expenses	10,374	6,218
System supplies	7,893	9,642
Vehicle and travel expense	7,576	33,321
Miscellaneous	6,309	2,780
Accrued sick pay	4,714	16,459
Permit fees	3,300	4,000
Total Operating Expenses	\$ 2,950,636	\$ 2,988,593

See independent auditors' report

Western Westmoreland Municipal Authority

Investments Held by Trustee

December 31, 2017

	<u>Fair Value</u>	<u>Carrying Value</u>
Restricted Investments		
<u>2015/2016 DSR</u>		
U.S. Treasury Bill, Due 01/18/18	<u>\$ 2,215,781</u>	<u>\$ 2,205,519</u>

December 31, 2016

	<u>Fair Value</u>	<u>Carrying Value</u>
Restricted Investments		
<u>2015/2016 DSR</u>		
U.S. Treasury Bill, Due 03/16/17	<u>\$ 2,197,800</u>	<u>\$ 2,195,244</u>

See independent auditors' report