

**BEAVER FALLS MUNICIPAL AUTHORITY
BEAVER FALLS, PENNSYLVANIA**

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FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**BEAVER FALLS  
MUNICIPAL AUTHORITY**  
BEAVER FALLS, PENNSYLVANIA

FINANCIAL STATEMENTS

AND

WITH REPORT BY  
CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015**

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**BEAVER FALLS, PENNSYLVANIA**

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# **BEAVER FALLS MUNICIPAL AUTHORITY**

1425 Eighth Avenue  
Beaver Falls, PA 15010

## **AUTHORITY BOARD MEMBERS**

Jerry T. Ford, Chairman  
Jean Boak, Vice Chairman  
John Sylvester, Secretary  
Rodney Austin, Treasurer  
Dave Aley, Assistant Secretary/Treasurer

James Riggio, General Manager

Christopher Shroads, Business Manager

## **AUTHORITY SOLICITOR**

J. Phillip Colavincenzo, Esquire  
Beaver, PA 15009

## **AUTHORITY CONSULTING ENGINEERS**

|                         |                          |
|-------------------------|--------------------------|
| (Water)                 | (Hydroelectric)          |
| Michael Baker, Jr., Inc | KLH Engineers            |
| Beaver, Pennsylvania    | Pittsburgh, Pennsylvania |

## **BOND COUNSEL**

John F. Salopek, Esquire  
Aliquippa, Pennsylvania

## **SPECIAL TAX COUNSEL**

Springer Bush & Perry, P.C.  
Pittsburgh, Pennsylvania

## **TRUSTEE, PAYING AGENT, REGISTRAR and ESCROW AGENT**

The Bank of New York  
New York, New York

## **UNDERWRITER**

Commonwealth Securities and Investments, Inc.  
Pittsburgh, Pennsylvania

## **INDEPENDENT AUDITOR**

Mark C. Turnley, CPA  
New Brighton, Pennsylvania

**Board of Directors  
Beaver Falls Municipal Authority**

**Independent Auditor's Report**

**Report on Financial Statements**

I have audited the accompanying financial statements of the Beaver Falls Municipal Authority as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Beaver Falls Municipal Authority' basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I did not audit accumulated depreciation and depreciation expense for the years ended December 31, 2015 and 2014. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Beaver Falls Municipal Authority as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

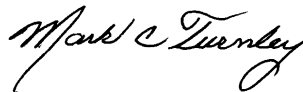
### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iv-xi and the defined benefit pension plan information on pages 20-23, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Beaver Falls Municipal Authority's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



Mark C. Turnley  
Certified Public Accountant

July 6, 2017  
New Brighton, Pennsylvania

**BEAVER FALLS MUNICIPAL AUTHORITY  
BEAVER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2016**

The management's discussion and analysis of the Beaver Falls Municipal Authority (BFMA) financial performance provides an overall review of the Authority's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Authority's financial performance.

The management's discussion and analysis is presented to supplement the basic financial statements. This 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. Certain comparative information between the current year and the prior year is required to be presented in the MD&A and such data is included within this report.

### **FINANCIAL HIGHLIGHTS**

The Authority's revenue performance exceeded budget expectations for the year ended December 31, 2016. The Authority operated within its debt covenants and the more stringent financial policies and guidelines set by the Board. The following are key financial highlights:

- Net position at year-end totaled \$47,114,274, an increase of 6% over the prior year. Of the total net position, \$44,726,207 was restricted or invested in capital assets. Unrestricted net position showed an increase of 25% from 2015 to 2016.
- Operating revenues were \$12,044,817, an increase of \$469,375 (4%) over calendar year 2015. The most notable changes in expenses between calendar year 2016 and 2015 were hydroelectric plant system expenses which increased by \$207,866 or 73%.
- Operating expenses before depreciation were under budget by \$264,234. Operating expenses excluding depreciation increased by \$45,713 or .6% over the prior year.
- Net operating income before depreciation for the year was \$4,877,173, a \$423,662 increase from the prior calendar year total of \$4,453,511. The change to Net Position before capital contributions increased \$372,985 or 16.6% from calendar year 2015.
- Capital contributions increased by \$90,012 from calendar year 2015.

**BEAVER FALLS MUNICIPAL AUTHORITY  
BEAVER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2016**

**USING THE ANNUAL FINANCIAL REPORT (GASB 34)**

The Annual Financial Report consists of the Management Discussion and Analysis (this section), basic financial statements, notes to those statements and a supplementary information detailing operating expenses and comparison of budget to actual revenues and expenses. These statements present the financial position, results of operations and cash flows of BFMA for the years 2016 and 2015. The primary purposes of Beaver Falls Municipal Authority's basic financial statements are as follows:

- Exhibit A – Statement of Net Position – Provides a view of the financial condition of the Authority including its liquidity, capital assets, long-term debt obligations and net position. Over time, increases or decreases in the Authority's net position are an indication of whether its financial health is improving or deteriorating. To assess the overall health of the Authority, additional non-financial factors must be considered, such as changes in the Authority's customer base and the condition of the Authority's infrastructure (sanitary sewers, pump stations, and treatment plant).
- Exhibit B – Statement of Revenues, Expenses and Changes in Net Position – Provides information with regard to the types of revenues earned and expenses incurred by the Authority on an annual basis. In addition, this statement indicates whether charges for services to customers were sufficient to meet the current operating costs, and potentially certain capital costs, necessary to operate the Authority, or whether the Authority had to draw on prior net asset reserves to meet its obligations.
- Exhibit C – Statement of Cash Flows – Provides relevant information about the cash receipts and cash payments of BFMA during the year, specifically, how much cash was generated for operating needs, and the amount of cash required for capital needs and debt service obligations.

**SUMMARY OF ORGANIZATION AND BUSINESS**

The Beaver Falls Municipal Authority (the "Authority") is a body, politic and corporate, created pursuant to an ordinance of the Council of the City of Beaver Falls, Beaver County, Pennsylvania, under the Municipality Act of 1935, as amended (the "Act"). The certificate of incorporation of the Authority was issued by the Secretary of the Commonwealth of Pennsylvania on July 3, 1940. The charter was amended on April 26, 1966, February 23, 1993, and May 16, 2006 to extend the term of existence of the Authority from July 3, 1990 to July 3, 2010, from July 3, 2010 to July 3, 2015, and from July 3, 2015 to July 3, 2045 respectively.

The governing body of the Authority is a Board consisting of five members appointed by the City of Beaver Falls. The terms of the members of the Board have been staggered so that the term of one member expires annually. The Board is authorized to exercise any and all powers conferred by the aforementioned Act necessary for the acquisition, construction, improvement, extension, maintenance and operation of the system facilities.

The Authority does not have taxing power; ongoing operations are funded from customer revenues. The acquisition and construction of capital assets are funded by capital contributions from customers, including developers, and customer revenues. The Authority's customer base as of December 31, 2016 consisted of approximately 15,674 domestic (includes 194 for fire services) 1,050 commercial, 70 public, and 52 industrial customers.



**BEAVER FALLS MUNICIPAL AUTHORITY  
BEAVER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2016**

**FINANCIAL ANALYSIS OF THE AUTHORITY**

A breakdown of the assets, liabilities and net position of the Authority for the years 2016 and 2015 is as follows:

|                                                               | <u>2016</u>                 | <u>2015</u>                 | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|---------------------------------------------------------------|-----------------------------|-----------------------------|--------------------------------------|
| Current and Other Assets                                      | \$ 4,467,670                | \$ 3,823,456                | \$ 644,214                           |
| Restricted Assets                                             | 1,012,042                   | 1,246,555                   | (234,513)                            |
| Capital Assets, Net                                           | 57,168,310                  | 57,835,749                  | (667,439)                            |
| Deferred Outflow of Resources                                 | <u>612,854</u>              | <u>834,755</u>              | <u>(221,901)</u>                     |
| <b>TOTAL ASSETS AND DEFERRED<br/>OUTFLOW OF RESOURCES</b>     | <b><u>\$ 63,260,876</u></b> | <b><u>\$ 63,740,515</u></b> | <b><u>\$ (479,639)</u></b>           |
| Current Liabilities                                           | \$ 4,764,019                | \$ 4,611,828                | \$ 152,191                           |
| Long-term Liabilities                                         | 11,083,271                  | 14,787,691                  | (3,704,420)                          |
| Deferred Inflow of Resources                                  | <u>299,312</u>              | <u>2,525</u>                | <u>296,787</u>                       |
| <b>TOTAL LIABILITIES AND DEFERRED<br/>INFLOW OF RESOURCES</b> | <b><u>\$ 16,146,602</u></b> | <b><u>\$ 19,402,044</u></b> | <b><u>\$ (3,255,442)</u></b>         |
| Net Investment in Capital Assets                              | \$ 43,959,643               | \$ 41,426,275               | \$ 2,533,368                         |
| Restricted - Expendable                                       | 766,564                     | 1,001,804                   | (235,240)                            |
| Unrestricted                                                  | <u>2,388,067</u>            | <u>1,910,392</u>            | <u>477,675</u>                       |
| <b>TOTAL NET POSITION</b>                                     | <b><u>\$ 47,114,274</u></b> | <b><u>\$ 44,338,471</u></b> | <b><u>\$ 2,775,803</u></b>           |

The increase in current and other assets is related mainly to an increase in cash and accounts receivable from general operations. Capital assets, net decreased as depreciation expense exceeded fixed asset additions during calendar year 2016. Long-term liabilities decreased as the Authority continues to pay down on its note payable obligations. The combination of a decrease in net capital assets and a net decrease in long-term debt obligations caused the increase in the net investment in capital assets portion of overall net position.

**BEAVER FALLS MUNICIPAL AUTHORITY  
BEAVER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2016**

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

A comparison of the Authority's revenues, expenses and changes in net position for the years 2016 and 2015 is as follows:

|                                                     | <u>2016</u>                | <u>2015</u>                | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|-----------------------------------------------------|----------------------------|----------------------------|--------------------------------------|
| <b>Operating Revenues</b>                           | <u>\$ 12,044,817</u>       | <u>\$ 11,575,442</u>       | <u>\$ 469,375</u>                    |
| <b>Operating Expenses:</b>                          |                            |                            |                                      |
| Purifying System                                    | \$ 1,961,275               | \$ 2,020,810               | \$ (59,535)                          |
| Hydroelectric Plant                                 | 491,837                    | 283,971                    | 207,866                              |
| Pumping System                                      | 326,432                    | 322,533                    | 3,899                                |
| Distribution System                                 | 1,282,022                  | 1,337,027                  | (55,005)                             |
| General and Administrative                          | 3,106,078                  | 3,157,590                  | (51,512)                             |
| <b>Total Operating Expenses</b>                     | <u>\$ 7,167,644</u>        | <u>\$ 7,121,931</u>        | <u>\$ 45,713</u>                     |
| <b>NET OPERATING INCOME BEFORE<br/>DEPRECIATION</b> | <u>\$ 4,877,173</u>        | <u>\$ 4,453,511</u>        | <u>\$ 423,662</u>                    |
| Depreciation Expense                                | 1,997,407                  | 1,929,413                  | 67,994                               |
| <b>INCOME FROM OPERATIONS</b>                       | <u>\$ 2,879,766</u>        | <u>\$ 2,524,098</u>        | <u>\$ 355,668</u>                    |
| NonOperating Revenues                               | \$ 57,077                  | \$ 59,377                  | \$ (2,300)                           |
| NonOperating Expenses                               | 318,392                    | 338,009                    | (19,617)                             |
| <b>NET NONOPERATING (EXPENSE)</b>                   | <u>\$ (261,315)</u>        | <u>\$ (278,632)</u>        | <u>\$ 17,317</u>                     |
| Capital Contributions                               | \$ 157,352                 | \$ 67,340                  | \$ 90,012                            |
| <b>CHANGE IN NET POSITION</b>                       | <u><u>\$ 2,775,803</u></u> | <u><u>\$ 2,312,806</u></u> | <u><u>\$ 462,997</u></u>             |

Operating revenues fall into several general categories. The Authority has four classes of water customers: residential, commercial, public and industrial. The other operating revenues are derived from the hydro plant, fire protection, penalties and other miscellaneous sources.

The Authority collects water tap-in and main line extension fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost attributable to the new account. Generally accepted accounting standards define these fees as non-operating revenues and reporting is required in the Statement of Revenues, Expenses and Changes in Net Position. The Authority restricts the use of capacity fee revenue to capital investment in its system. The Authority receives additions to its collections and distribution systems from developers. These amounts are shown as capital contributions.

**BEAVER FALLS MUNICIPAL AUTHORITY  
BEAVER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2016**

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

Operating revenues increased \$469,375 or 4% from the previous calendar year. A review of Schedule 1 shows that overall operating expenses remained fairly stable between calendar years 2016 and 2015, increasing by approximately \$113,707 or 1.3%. The most significant area of increase was in hydroelectric plant system expenses, mainly in the area of maintenance costs, which increased \$225,827.

A comparison of the Authority's individual operating expenses, including depreciation, as a percentage of total expenses for the years 2016 and 2015 is as follows:

|                                 | <u>2016</u>         | <u>%</u>      | <u>2015</u>         | <u>%</u>      |
|---------------------------------|---------------------|---------------|---------------------|---------------|
| Purifying System                | \$ 1,961,275        | 21.4%         | \$ 2,020,810        | 22.3%         |
| Hydroelectric Plant             | 491,837             | 5.4%          | 283,971             | 3.1%          |
| Pumping System                  | 326,432             | 3.6%          | 322,533             | 3.6%          |
| Distribution System             | 1,282,022           | 14.0%         | 1,337,027           | 14.8%         |
| General and Administrative      | 3,106,078           | 33.9%         | 3,157,590           | 34.9%         |
| Depreciation                    | 1,997,407           | 21.8%         | 1,929,413           | 21.3%         |
| <b>Total Operating Expenses</b> | <b>\$ 9,165,051</b> | <b>100.0%</b> | <b>\$ 9,051,344</b> | <b>100.0%</b> |

The following table indicates operating statistics for the Authority for the years ended December 31:

|                                                    | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|----------------------------------------------------|-------------|-------------|-------------|
| <b>Approximate number of customers at year-end</b> | 16,846      | 16,817      | 16,800      |
| <b>Customers per Class of Water:</b>               |             |             |             |
| Domestic                                           | 15,674      | 15,646      | 15,628      |
| Commercial                                         | 1,050       | 1,049       | 1,049       |
| Public                                             | 70          | 70          | 70          |
| Industrial                                         | 52          | 52          | 53          |
| <b>Ratio of Operating Revenue to:</b>              |             |             |             |
| Total expenses from operations                     | 1.27        | 1.23        | 1.22        |
| Total operating expenses                           | 1.31        | 1.28        | 1.32        |
| Total assets                                       | .19         | .18         | .18         |
| Net position                                       | .26         | .26         | .27         |
| <b>Debt-Related Ratios:</b>                        |             |             |             |
| Debt to Net position                               | .34         | .44         | .52         |
| Debt to capital assets                             | .28         | .34         | .38         |

**BEAVER FALLS MUNICIPAL AUTHORITY  
BEAVER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2016**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At December 31, 2016, the Authority had \$57,168,310 invested in capital assets, including land, net of depreciation. This amount represents a net decrease (including additions, deletions and depreciation) of \$667,439, or approximately 1.2% from 2015. The Authority's capital additions during 2016 for a variety of capital projects totaled \$1,329,968.

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

|                                         | <u>2016</u>                 | <u>2015</u>                 | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|-----------------------------------------|-----------------------------|-----------------------------|--------------------------------------|
| Land and Non-Depreciable Property       | \$ 726,084                  | \$ 426,997                  | \$ 299,087                           |
| Purification System                     | 23,662,575                  | 23,626,233                  | 36,342                               |
| Hydraulic and Other Power Pump Property | 14,168,146                  | 14,109,937                  | 58,209                               |
| Distribution System                     | 41,891,181                  | 41,181,883                  | 709,298                              |
| General Structures and Equipment        | 3,093,561                   | 2,989,771                   | 103,790                              |
| Vehicles                                | 1,294,427                   | 1,265,003                   | 29,424                               |
| Hydroelectric Plant                     | 12,969,995                  | 12,955,453                  | 14,542                               |
|                                         | <u>\$ 97,805,969</u>        | <u>\$ 96,555,277</u>        | <u>\$ 1,250,692</u>                  |
| Accumulated Depreciation                | <u>(42,286,369)</u>         | <u>(40,288,962)</u>         | <u>(1,997,407)</u>                   |
|                                         | <u>\$ 55,519,600</u>        | <u>\$ 56,266,315</u>        | <u>\$ (746,715)</u>                  |
| Construction in Progress                | <u>1,648,710</u>            | <u>1,569,434</u>            | <u>79,276</u>                        |
|                                         | <u><u>\$ 57,168,310</u></u> | <u><u>\$ 57,835,749</u></u> | <u><u>\$ (667,439)</u></u>           |

**DEBT ADMINISTRATION**

As of December 31, 2016, the Authority had water revenue note and promissory note principal indebtedness outstanding of \$13,559,859. During the 2016 calendar year, the Authority made total principal and interest payments of approximately \$3,451,474 on their total combined debt. The Authority is scheduled to make principal and interest payments on their total debt of approximately \$3,560,096 during the 2017 calendar year.

**BEAVER FALLS MUNICIPAL AUTHORITY  
BEAVER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2016**

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

The Authority's remaining debt obligations are comprised of two promissory note issues with the Pennsylvania Infrastructure Investment Authority (PENNVEST) and Penn Works, a water revenue note with First National Bank, as well as a line of credit with First National Bank as follows:

**PENNVEST – 2009**

On April 20, 2009, the Pennsylvania Infrastructure Investment Authority (PENNVEST) approved a loan in the amount of \$9,167,940 to the Beaver Falls Municipal Authority for the purpose of providing financing for the Eastvale Intake Construction Project and other capital projects of the Authority. As of December 31, 2012, the Authority had borrowed \$6,119,858 against this loan. The terms of the note agreement call for the current monthly payment of \$44,206.64 at an interest rate of 1.274% through October 1, 2016, followed by monthly payments of \$48,201.03 for a period of 6 years at an interest rate of 2.547% effective November 1, 2016. The note is secured by the gross receipts of the Authority.

**PENN WORKS**

On November 8, 2006, the Authority borrowed \$2,031,525 from the Commonwealth of Pennsylvania Penn Works in the form of a promissory note to provide funds for capital improvements to the Authority's water system. Construction draws on the note by the Authority totaled \$1,930,024. The terms of the note agreement call for current principal and interest payments of \$10,324.33 per month. The current interest rate on the note is 2.0% per annum, with the note scheduled to mature on September 1, 2026. The note is secured by the gross receipts of the Authority.

**FIRST NATIONAL BANK LINE OF CREDIT**

On October 21, 2011, the Authority entered into a \$1,000,000 commercial line of credit agreement with First National Bank to provide funds for general operations and capital improvements to the Authority's water system. The current interest rate on the line of credit is 67% of the prime rate. As of December 31, 2016 and 2015, there is no balance on this line of credit. The line of credit is secured by the gross receipts of the Authority.

**FIRST NATIONAL BANK WATER REVENUE NOTE – SERIES OF 2014**

On December 11, 2014, the Authority issued Water Revenue Note – Series of 2014 to First National Bank totaling \$11,000,000 for the purpose of taking advantage of favorable interest rates to refinance prior debt obligations with 1) First National Bank totaling \$1,250,879 and 2) PNC Bank, totaling \$8,886,689. The terms of the Water Revenue Note – Series of 2014 call for current principal and interest payments at the applicable rate payable on the 20<sup>th</sup> day of each month, beginning January 20, 2015, and continuing until this Note is paid in full. The current interest rate on the Note is equal to LIBOR plus 1.40% per annum, with the Note scheduled to mature on December 20, 2018. The Note is secured by the gross receipts of the Authority.

More detailed information regarding the Authority's long-term debt obligations is contained in Note 6 in the notes to the financial statements.

**BEAVER FALLS MUNICIPAL AUTHORITY  
BEAVER COUNTY, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2016**

**RATE COVENANT**

In the Water Revenue Obligation Note – Series of 2014 issued to First National Bank, the Authority covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for water furnished by the Authority that will yield annual income from operations before depreciation in the calendar year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments. The Authority has adopted a more stringent internal policy of maintaining one hundred and twenty percent (120%) debt service coverage. The Authority's ratios for 2016 and 2015 (using total debt service obligations) were 1.39 and 1.29, respectively.

**FINAL COMMENTS**

The Authority has adopted a plan that guides Board and staff actions toward its mission of providing affordable, efficient, and reliable water services. Part of this plan is continued capital investment. The Authority is always examining its work practices to find more efficient and productive methods of service delivery in order to continue to strengthen its financial condition. Plans for 2017 include replacing 2+ miles of old waterline in our system.

**CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT**

Our financial report is designed to provide our customers, investors and creditors with a general overview of the Authority's finances and to show the Board of Directors' accountability for the money they administer on behalf of the communities served by the Beaver Falls Municipal Authority. If you have questions about this report or wish to request additional financial information, please contact the Beaver Falls Municipal Authority at 1425 Eighth Avenue, Beaver Falls, Pa. 15010, (724)-846-2400.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31,**

|                                                           | <u>2016</u>          | <u>2015</u>          |
|-----------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS:</b>                                            |                      |                      |
| <b>CURRENT ASSETS:</b>                                    |                      |                      |
| Cash and Cash Equivalents                                 | \$ 486,722           | \$ 309,583           |
| Accounts Receivable                                       | 1,717,476            | 1,546,484            |
| Unbilled Water Service                                    | 1,451,006            | 1,237,034            |
| Inventory - Materials and Supplies                        | 468,942              | 449,236              |
| Prepaid Expenses                                          | 343,524              | 281,119              |
| <b>TOTAL CURRENT ASSETS</b>                               | <b>\$ 4,467,670</b>  | <b>\$ 3,823,456</b>  |
| <b>RESTRICTED ASSETS</b>                                  |                      |                      |
| Cash and Cash Equivalents                                 | \$ 1,012,042         | \$ 1,246,555         |
| <b>TOTAL RESTRICTED ASSETS</b>                            | <b>\$ 1,012,042</b>  | <b>\$ 1,246,555</b>  |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                     |                      |                      |
| Land and Non-Depreciable Property                         | \$ 726,084           | \$ 426,997           |
| Purification System                                       | 23,662,575           | 23,626,233           |
| Hydraulic and Other Power Pump property                   | 14,168,146           | 14,109,937           |
| Distribution System                                       | 41,891,181           | 41,181,883           |
| General Structures and Equipment                          | 3,093,561            | 2,989,771            |
| Vehicles                                                  | 1,294,427            | 1,265,003            |
| Hydroelectric Plant                                       | 12,969,995           | 12,955,453           |
| Construction in Progress                                  | 1,648,710            | 1,569,434            |
|                                                           | \$ 99,454,679        | \$ 98,124,711        |
| Less Accumulated Depreciation                             | (42,286,369)         | (40,288,962)         |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b>                  | <b>\$ 57,168,310</b> | <b>\$ 57,835,749</b> |
| <b>TOTAL ASSETS</b>                                       | <b>\$ 62,648,022</b> | <b>\$ 62,905,760</b> |
| <b>DEFERRED OUTFLOW OF RESOURCES:</b>                     |                      |                      |
| Deferred Interest on Refunding                            | \$ 105,714           | \$ 158,568           |
| Deferred Outflow of Resources - Pension                   | 507,140              | 676,187              |
| <b>TOTAL DEFERRED OUTFLOW OF RESOURCES</b>                | <b>\$ 612,854</b>    | <b>\$ 834,755</b>    |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>     | <b>\$ 63,260,876</b> | <b>\$ 63,740,515</b> |
| <b>LIABILITIES:</b>                                       |                      |                      |
| <b>CURRENT LIABILITIES:</b>                               |                      |                      |
| Accounts Payable                                          | \$ 344,872           | \$ 364,336           |
| Due to Other Governmental Units                           | 628,468              | 606,359              |
| Accrued Payroll and Taxes                                 | 123,542              | 99,690               |
| Accrued Interest Payable                                  | 19,366               | 12,294               |
| Other Accrued Liabilities                                 | 199,459              | 79,201               |
| Customer/Advance Deposits                                 | 157,454              | 195,361              |
| Notes Payable - Current Portion                           | 3,290,858            | 3,254,587            |
| <b>TOTAL CURRENT LIABILITIES</b>                          | <b>\$ 4,764,019</b>  | <b>\$ 4,611,828</b>  |
| <b>LONG-TERM LIABILITIES:</b>                             |                      |                      |
| Notes Payable - Long-Term Portion                         | \$ 10,269,001        | \$ 13,558,206        |
| Net Pension Liability                                     | 814,270              | 1,229,485            |
| <b>TOTAL LONG-TERM LIABILITIES</b>                        | <b>\$ 11,083,271</b> | <b>\$ 14,787,691</b> |
| <b>TOTAL LIABILITIES</b>                                  | <b>\$ 15,847,290</b> | <b>\$ 19,399,519</b> |
| <b>DEFERRED OUTFLOW OF RESOURCES:</b>                     |                      |                      |
| Deferred Inflow of Resources - Pension                    | \$ 299,312           | \$ 2,525             |
| <b>TOTAL DEFERRED INFLOW OF RESOURCES</b>                 | <b>\$ 299,312</b>    | <b>\$ 2,525</b>      |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b> | <b>\$ 16,146,602</b> | <b>\$ 19,402,044</b> |
| <b>NET POSITION:</b>                                      |                      |                      |
| Net Investment in Capital Assets                          | \$ 43,959,643        | \$ 41,426,275        |
| Restricted Debt Service                                   | 766,564              | 1,001,804            |
| Unrestricted                                              | 2,388,067            | 1,910,392            |
| <b>TOTAL NET POSITION</b>                                 | <b>\$ 47,114,274</b> | <b>\$ 44,338,471</b> |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                 | <b>\$ 63,260,876</b> | <b>\$ 63,740,515</b> |

The accompanying notes are an integral part of these financial statements

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

|                                                                  | <u>2016</u>                        | <u>2015</u>                        |
|------------------------------------------------------------------|------------------------------------|------------------------------------|
| <b><u>OPERATING REVENUES:</u></b>                                |                                    |                                    |
| Water Revenues                                                   | \$ 10,943,774                      | \$ 10,435,120                      |
| Hydroelectric Revenues                                           | 1,101,043                          | 1,140,322                          |
| <b>TOTAL OPERATING REVENUES</b>                                  | <b><u>\$ 12,044,817</u></b>        | <b><u>\$ 11,575,442</u></b>        |
| <b><u>OPERATING EXPENSES:</u></b>                                |                                    |                                    |
| Purifying System                                                 | \$ 1,961,275                       | \$ 2,020,810                       |
| Hydroelectric Plant System                                       | 491,837                            | 283,971                            |
| Pumping System                                                   | 326,432                            | 322,533                            |
| Distribution System                                              | 1,282,022                          | 1,337,027                          |
| General and Administrative                                       | 3,106,078                          | 3,157,590                          |
| Depreciation                                                     | 1,997,407                          | 1,929,413                          |
| <b>TOTAL OPERATING EXPENSES</b>                                  | <b><u>\$ 9,165,051</u></b>         | <b><u>\$ 9,051,344</u></b>         |
| <b>NET OPERATING INCOME</b>                                      | <b><u>\$ 2,879,766</u></b>         | <b><u>\$ 2,524,098</u></b>         |
| <b><u>NON-OPERATING REVENUES AND (EXPENSES)</u></b>              |                                    |                                    |
| Interest Income                                                  | \$ 3,459                           | \$ 2,746                           |
| Other Income                                                     | 53,618                             | 56,631                             |
| Interest Expense                                                 | (318,392)                          | (338,009)                          |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>                    | <b><u>\$ (261,315)</u></b>         | <b><u>\$ (278,632)</u></b>         |
| <b>INCREASE IN NET POSITION BEFORE<br/>CAPITAL CONTRIBUTIONS</b> | <b><u>\$ 2,618,451</u></b>         | <b><u>\$ 2,245,466</u></b>         |
| <b>CAPITAL CONTRIBUTIONS</b>                                     | <u>157,352</u>                     | <u>67,340</u>                      |
| <b>INCREASE IN NET POSITION</b>                                  | <b><u>\$ 2,775,803</u></b>         | <b><u>\$ 2,312,806</u></b>         |
| NET POSITION - JANUARY 1,                                        | <u>44,338,471</u>                  | <u>42,025,665</u>                  |
| <b>NET POSITION - DECEMBER 31,</b>                               | <b><u><u>\$ 47,114,274</u></u></b> | <b><u><u>\$ 44,338,471</u></u></b> |

The accompanying notes are an integral part of these financial statements



**BEAVER FALLS MUNICIPAL AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                                                                                    | <u>2016</u>                       | <u>2015</u>                       |
|----------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                                 |                                   |                                   |
| Cash Received from Customers                                                                       | \$ 11,659,853                     | \$ 11,656,842                     |
| Cash Paid for Operating Activities                                                                 | (7,090,288)                       | (7,413,578)                       |
| <b>Net Cash Provided by Operating Activities</b>                                                   | <b><u>\$ 4,569,565</u></b>        | <b><u>\$ 4,243,264</u></b>        |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                             |                                   |                                   |
| Acquisition of Property and Equipment                                                              | \$ (1,329,968)                    | \$ (1,530,089)                    |
| Contributions in Aid of Construction                                                               | 157,352                           | 67,340                            |
| Proceeds from Other Non-Operating Financing Activities                                             | 53,618                            | 56,631                            |
| Principal Payments on Notes                                                                        | (3,252,934)                       | (3,309,658)                       |
| Interest Paid on Debt                                                                              | (258,466)                         | (283,492)                         |
| <b>Net Cash (Used In) Capital and Related Financing Activities</b>                                 | <b><u>\$ (4,630,398)</u></b>      | <b><u>\$ (4,999,268)</u></b>      |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                                 |                                   |                                   |
| Interest Income                                                                                    | \$ 3,459                          | \$ 2,746                          |
| <b>Net Cash Provided by Investing Activities</b>                                                   | <b><u>\$ 3,459</u></b>            | <b><u>\$ 2,746</u></b>            |
| <b>Net Increase &lt;Decrease&gt; in Cash and Cash Equivalents</b>                                  | <b><u>\$ (57,374)</u></b>         | <b><u>\$ (753,258)</u></b>        |
| CASH AND CASH EQUIVALENTS - JANUARY 1                                                              | 1,556,138                         | 2,309,396                         |
| <b>CASH AND CASH EQUIVALENTS - DECEMBER 31</b>                                                     | <b><u><u>\$ 1,498,764</u></u></b> | <b><u><u>\$ 1,556,138</u></u></b> |
| <b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u></b>     |                                   |                                   |
| Net Operating Income                                                                               | \$ 2,879,766                      | \$ 2,524,098                      |
| <b>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:</b> |                                   |                                   |
| Depreciation                                                                                       | 1,997,407                         | 1,929,413                         |
| <b>Change in Current Assets and Liabilities:</b>                                                   |                                   |                                   |
| (Increase) Decrease in Accounts Receivable                                                         | (170,992)                         | 181,744                           |
| (Increase) Decrease in Unbilled Water Service                                                      | (213,972)                         | (47,652)                          |
| (Increase) Decrease in Inventory                                                                   | (19,706)                          | (10,325)                          |
| (Increase) Decrease in Prepaid Expenses                                                            | (62,405)                          | 39,945                            |
| (Increase) Decrease in Deferred Outflow of Resources                                               | 169,047                           | -                                 |
| Increase (Decrease) in Accounts Payable                                                            | 122,903                           | (272,706)                         |
| Increase (Decrease) in Accrued Payroll and Taxes                                                   | 23,852                            | 17,689                            |
| Increase (Decrease) in Deferred Inflows of Resources                                               | 296,787                           | -                                 |
| Increase (Decrease) in Net Pension Liability                                                       | (415,215)                         | -                                 |
| Increase (Decrease) in Unearned Revenue                                                            | -                                 | (52,692)                          |
| Increase (Decrease) in Customer/Advance Deposits                                                   | (37,907)                          | (66,250)                          |
| <b>Net Cash Provided by Operating Activities</b>                                                   | <b><u><u>\$ 4,569,565</u></u></b> | <b><u><u>\$ 4,243,264</u></u></b> |

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

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

The Beaver Falls Municipal Authority was incorporated on July 3, 1940, for the term of fifty years, as a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipality Authorities Act of 1945, as amended. The Articles of Incorporation were subsequently amended on February 26, 1966, February 23, 1993, and again on May 16, 2006, to extend the Authority's term of existence, most recently to July 3, 2045. The Authority was established with an ordinance enacted by the City of Beaver Falls, and City Council members are responsible for appointing the Authority's five (5) member Board of Directors. The Authority serves approximately 23 municipalities, including the City of Beaver Falls, the Boroughs of Big Beaver, Conway, Eastvale, East Rochester, Fallston, Freedom, Homewood, New Brighton, Patterson Heights, Rochester, Bridgewater, West Mayfield, and Zelenople, as well as the Townships of Chippewa, Daugherty, New Sewickley, North Sewickley, Patterson, Pulaski, Rochester, South Beaver, and White.

The financial statements of the Beaver Falls Municipal Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 'enterprise (proprietary) funds'. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

**REPORTING ENTITY**

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

**BUDGETARY ACCOUNTING**

Management submits a proposed budget to the Authority Board of Directors prior to the November board meeting annually. The Authority adopts, by resolution, annual operating and capital budgets prior to January 1, consistent with accounting principles generally accepted in the United States of America. All unexpended and unencumbered appropriations in the operating budget lapse at year-end. No appropriation for a capital project in the capital budget lapses until the purpose for which the funds were appropriated have been accomplished or abandoned. Management is authorized to transfer budgeted amounts between line items within the Authority's expense categories.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**BASIS OF ACCOUNTING**

The Authority is considered a proprietary (enterprise) fund type. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public be financed or recovered primarily through user charges. Accordingly, the Authority utilizes the accrual method of accounting. Under this method, revenues are recognized when earned rather than when cash is received, and expenses are recognized when an obligation is incurred rather than when cash is actually paid.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include amounts in demand deposit accounts, and any other short-term highly liquid assets with original maturity terms of less than three months.

**INVESTMENTS**

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

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

Investment of the Authority's restricted assets for 2016 and 2015 are made pursuant to and restricted by the terms of the loan agreement securing the Water Revenue Note – Series of 2014 with First National Bank, proceeds of which refunded the Revenue Obligation Note – Series of 2010 with PNC Bank. Investments are stated at fair value.

**RESTRICTED ASSETS**

In accordance with provisions of the current Water Revenue Note – Series of 2014, and the former Revenue Obligation Note – Series of 2010, the Authority is obligated to restrict certain funds received from these Notes to meet debt service requirements and construction related expenditures. The total of these funds is reflected in Exhibit A as 'restricted assets'. The debt service component is reflected as a restriction to net position. The balance of restricted construction funds is included as part of 'Net Investment in Capital Assets'.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**RESTRICTED ASSETS (Continued)**

The Authority's restricted assets as of December 31, 2016 and 2015 are comprised of the following:

|                    | <b><u>2016</u></b>         | <b><u>2015</u></b>         |
|--------------------|----------------------------|----------------------------|
| Debt Service Funds | \$ 766,564                 | \$ 1,001,804               |
| Construction Funds | 245,478                    | 244,751                    |
|                    | <b><u>\$ 1,012,042</u></b> | <b><u>\$ 1,246,555</u></b> |

**ACCOUNTS RECEIVABLE**

Accounts receivable are stated at net realizable value. The Authority has not established an allowance for doubtful accounts, as uncollectible accounts receivable are charged to operations (expense) as incurred. Management estimates that the result of this method materially approximates the allowance method.

**INVENTORY – MATERIALS AND SUPPLIES**

Inventory of materials and supplies is stated at a combination of cost and/or average cost.

**DEFERRED INFLOW/OUTFLOW OF RESOURCES**

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

**PROPERTY, PLANT, AND EQUIPMENT**

All assets are recorded at cost and include betterments that extend the physical or economic life of the asset. Maintenance and repair costs are charged to operations as incurred. Depreciation expense is calculated on a straight-line basis over the estimated useful lives of the assets. Depreciation expense for the year ended December 31, 2016 and 2015 was \$1,997,407 and \$1,929,413 respectively.

**CAPITAL CONTRIBUTIONS**

Capital contributions represent funds received from customers, developers, and contractors for water main pipe extensions. Tap-in connection and customer facilities fees are also considered capital contributions.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**NET POSITION**

Net position is classified into four categories, as follows, according to external donor or legal restrictions or availability of assets to satisfy Authority obligations.

- Net investment in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted-Nonexpendable – Net position subject to externally imposed restrictions which are required to be maintained in perpetuity.
- Restricted-Expendable – Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the Authority or by the passage of time.
- Unrestricted – Consists of net position that does not meet the definition of ‘restricted’ or ‘net investment in capital assets’.
- Restricted Net Position – This component of net position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.

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

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Beaver Falls Municipal Authority, these revenues are water sales to customers, tap-in fees for water service, and other miscellaneous revenues directly related to the operations of the Authority. Operating expenses are the necessary costs incurred to operate the Authority. Non-operating revenues of the Authority consist of investment earnings, grant revenues, and other miscellaneous non-operating revenues. Non-operating expenses consist of interest expense on loan obligations and loan issue costs.

**ESTIMATES**

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

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**ADOPTION OF GASB PRONOUNCEMENTS**

The requirements of the following GASB Statements were adopted, where applicable, for the Authority's 2016 financial statements, as applicable. Except where noted, the adoption of these pronouncements did not have a significant impact on the Authority's financial statements.

GASB Statement No. 72, "*Fair Value Measurement and Application*." This Statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 76, "*Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*." This statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55.

GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple- Employer Defined Benefit Pension Plans*". The primary objective is to address a practice issue regarding the scope and applicability of Statement No. 68, "Accounting and Financial Reporting for Pensions." The issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local government employers whose employees are provided with such pensions.

**PENDING GASB PRONOUNCEMENTS**

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

In June of 2015, the GASB issued Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*," except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement No. 68. The primary objective of this Statement is to establish requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by Statements No. 67 and 68). The provisions of this Statement are effective for the Authority's December 31, 2017 financial statements.

In March of 2016, the GASB issued Statement No. 82, "*Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73*". The primary objective of this Statement is to address certain issues that have been raised with respect to GASB Statements No. 67, "Financial Reporting for Pension Plans," No. 68, "Accounting and Financial Reporting for Pensions," and No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." The provisions of this Statement are effective for the Authority's December 31, 2017 financial statements.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**PENDING GASB PRONOUNCEMENTS (Continued)**

In November of 2016, the GASB issued Statement No. 83, '*Certain Asset Retirement Obligations*'. The primary objective of this Statement is to provide financial statement users with information about 'asset retirement obligations (ARO) that were not addressed in GASB Standards by establishing uniform accounting and financial reporting requirements for these obligations. The provisions of this Statement are effective for the Authority's December 31, 2018 financial statements.

In March of 2017, the GASB issued Statement No. 85, '*Omnibus 2017*'. The primary objective of this Statement is to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of this Statement are effective for the Authority's December 31, 2018 financial statements.

In May of 2017, the GASB issued Statement No. 86, '*Certain Debt Extinguishment Issues*'. The primary objective of this Statement is to improve consistency in accounting and financial reporting for certain debt extinguishments and to enhance the decision-usefulness of that information. The provisions of this Statement are effective for the Authority's December 31, 2018 financial statements.

In June of 2017, the GASB issued Statement No. 87, '*Leases*'. The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. The provisions of this Statement are effective for the Authority's December 31, 2020 financial statements

**NOTE 2 - CASH DEPOSITS**

At December 31, 2016 and 2015, the Authority had the following bank balance and carrying value on its' unrestricted cash and cash equivalent accounts:

**CASH DEPOSITS**

|                      | --- December 31, 2016 --- |                           | --- December 31, 2015 --- |                           |
|----------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                      | <u>Bank<br/>Balance</u>   | <u>Carrying<br/>Value</u> | <u>Bank<br/>Balance</u>   | <u>Carrying<br/>Value</u> |
| Revenue Fund         | \$ 423,634                | \$ 483,072                | \$ 567,595                | \$ 305,933                |
| Change Fund          | 7,171                     | 3,650                     | 2,270                     | 3,650                     |
| Debt Service Reserve | 766,564                   | 766,564                   | 1,001,804                 | 1,001,804                 |
| Construction Fund    | 245,478                   | 245,478                   | 244,751                   | 244,751                   |
|                      | <u>\$ 1,442,847</u>       | <u>\$ 1,498,764</u>       | <u>\$ 1,816,420</u>       | <u>\$ 1,556,138</u>       |

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

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

**Custodial Credit Risk:**

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a separate policy for custodial credit risk in addition to the requirements of State Law. As of December 31, 2016 and 2015, \$1,191,283 and \$1,564,858 respectively of the Authority's bank balance total is exposed to custodial credit risk as this amount represents uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Authority's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, the aforementioned deposits, in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable, as reflected in Exhibit A, is comprised of the following:

|            | <u>2016</u>         | <u>2015</u>         |
|------------|---------------------|---------------------|
| Hydroplant | \$ 301,506          | \$ 253,667          |
| Consumers  | 1,048,274           | 957,977             |
| Sewer      | 364,196             | 334,840             |
| Advances   | 3,500               | -                   |
|            | <u>\$ 1,717,476</u> | <u>\$ 1,546,484</u> |

**NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT**

The following comprises the changes to the Authority's property, plant, and equipment account during 2016 and 2015:

|                                  | <u>Balance<br/>1/1/16</u> | <u>Additions</u>    | <u>Transfers/<br/>Deletions</u> | <u>Balance<br/>12/31/16</u> |
|----------------------------------|---------------------------|---------------------|---------------------------------|-----------------------------|
| Land/Non-Depreciable Property    | \$ 426,997                | \$ -                | \$ 299,087                      | \$ 726,084                  |
| Purification System              | 23,626,233                | -                   | 36,342                          | 23,662,575                  |
| Hydraulic/Other Power Pump Prop  | 14,109,937                | -                   | 58,209                          | 14,168,146                  |
| Distribution System              | 41,181,883                | -                   | 709,298                         | 41,891,181                  |
| General Structures and Equipment | 2,989,771                 | -                   | 103,790                         | 3,093,561                   |
| Vehicles                         | 1,265,003                 | (200)               | 29,624                          | 1,294,427                   |
| Hydroelectric Plant              | 12,955,453                | -                   | 14,542                          | 12,969,995                  |
| Construction in Progress         | 1,569,434                 | 1,330,168           | (1,250,892)                     | 1,648,710                   |
|                                  | <u>\$ 98,124,711</u>      | <u>\$ 1,329,968</u> | <u>\$ -</u>                     | <u>\$ 99,454,679</u>        |
| Less: Accumulated Depreciation   | (40,288,962)              | (1,997,407)         | -                               | (42,286,369)                |
|                                  | <u>\$ 57,835,749</u>      | <u>\$ (667,439)</u> | <u>\$ -</u>                     | <u>\$ 57,168,310</u>        |



**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT (Continued)**

|                                  | <b>Balance<br/>1/1/15</b>   | <b>Additions</b>           | <b>Transfers/<br/>Deletions</b> | <b>Balance<br/>12/31/15</b> |
|----------------------------------|-----------------------------|----------------------------|---------------------------------|-----------------------------|
| Land/Non-Depreciable Property    | \$ 426,997                  | \$ -                       | \$ -                            | \$ 426,997                  |
| Purification System              | 20,492,523                  | -                          | 3,133,710                       | 23,626,233                  |
| Hydraulic/Other Power Pump Prop  | 14,090,967                  | -                          | 18,970                          | 14,109,937                  |
| Distribution System              | 39,155,859                  | -                          | 2,026,024                       | 41,181,883                  |
| General Structures and Equipment | 2,946,641                   | -                          | 43,130                          | 2,989,771                   |
| Vehicles                         | 1,091,293                   | (1,000)                    | 174,710                         | 1,265,003                   |
| Hydroelectric Plant              | 12,946,021                  | -                          | 9,432                           | 12,955,453                  |
| Construction in Progress         | 5,444,321                   | 1,531,089                  | (5,405,976)                     | 1,569,434                   |
|                                  | <u>\$ 96,594,622</u>        | <u>\$ 1,530,089</u>        | <u>\$ -</u>                     | <u>\$ 98,124,711</u>        |
| Less: Accumulated Depreciation   | <u>(38,359,549)</u>         | <u>(1,929,413)</u>         | <u>-</u>                        | <u>(40,288,962)</u>         |
|                                  | <u><u>\$ 58,235,073</u></u> | <u><u>\$ (399,324)</u></u> | <u><u>\$ -</u></u>              | <u><u>\$ 57,835,749</u></u> |

**NOTE 5 - DUE TO OTHER GOVERNMENTAL UNITS**

The Beaver Falls Municipal Authority, in addition to its water billings, bills and collects sewage charges for certain municipalities. Uncollected sewer billings and related cash collections received by the Authority as of December 31, 2016 and 2015, not as yet remitted to these municipalities, are reflected in the accompanying financial statements as 'Due to Other Governmental Units'.

**NOTE 6 - LONG-TERM DEBT OBLIGATIONS**

**PENNVEST - 2009**

On April 20, 2009, the Pennsylvania Infrastructure Investment Authority (PENNVEST) approved a loan in the amount of \$9,167,940 to the Beaver Falls Municipal Authority for the purpose of providing financing for the Eastvale Intake Construction Project and other capital projects of the Authority. As of December 31, 2012, the Authority had borrowed \$6,119,858 against this loan. The terms of the note agreement call for the current monthly payment of \$44,206.64 at an interest rate of 1.274% through October 1, 2016, followed by monthly payments of \$48,201.03 for a period of 6 years at an interest rate of 2.547% effective November 1, 2016. The note is secured by the gross receipts of the Authority. The following summarizes the remaining debt service obligation of the Authority on this Note as of December 31, 2016:

| <b>Dec 31</b> | <b>Principal</b>           | <b>Interest</b>            | <b>Total</b>               |
|---------------|----------------------------|----------------------------|----------------------------|
| 2017          | 409,843                    | 168,569                    | 578,412                    |
| 2018          | 420,404                    | 158,008                    | 578,412                    |
| 2019          | 431,238                    | 147,175                    | 578,413                    |
| 2020          | 442,350                    | 136,062                    | 578,412                    |
| 2021          | 453,749                    | 124,663                    | 578,412                    |
| 2022-2026     | 2,450,284                  | 441,776                    | 2,892,060                  |
| 2027-2030     | 2,197,480                  | 116,168                    | 2,313,648                  |
|               | <u><u>\$ 6,805,348</u></u> | <u><u>\$ 1,292,421</u></u> | <u><u>\$ 8,097,769</u></u> |

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 6 – LONG-TERM DEBT OBLIGATIONS (Continued)**

**PENN WORKS - 2006**

On November 8, 2006, the Authority borrowed \$2,128,515 from the Commonwealth of Pennsylvania Penn Works in the form of a promissory note to provide funds for capital improvements to the Authority's water system. The terms of the note agreement call for current principal and interest payments of \$10,895.31 per month. The current interest rate on the note is 2.0% per annum, with the note scheduled to mature on September 1, 2026. The note is secured by the gross receipts of the Authority. The following summarizes the Penn Works debt service obligations of the Authority as of December 31, 2016:

| <u>Dec 31</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|---------------|---------------------|-------------------|---------------------|
| 2017          | \$ 108,590          | \$ 22,154         | \$ 130,744          |
| 2018          | 110,782             | 19,962            | 130,744             |
| 2019          | 113,018             | 17,726            | 130,744             |
| 2020          | 115,299             | 15,445            | 130,744             |
| 2021          | 117,626             | 13,118            | 130,744             |
| 2022-2026     | 591,974             | 29,059            | 621,033             |
|               | <u>\$ 1,157,289</u> | <u>\$ 117,464</u> | <u>\$ 1,274,753</u> |

**FIRST NATIONAL BANK LINE OF CREDIT**

On October 21, 2011, the Authority entered into a \$1,000,000 commercial line of credit agreement with First National Bank to provide funds for general operations and capital improvements to the Authority's water system. The current interest rate on the line of credit is 67% of the prime rate. As of December 31, 2016 and 2015, there is no balance on this line of credit. The line of credit is secured by the gross receipts of the Authority

**FIRST NATIONAL BANK WATER REVENUE NOTE – SERIES OF 2014**

On December 11, 2014, the Authority issued Water Revenue Note – Series of 2014 to First National Bank totaling \$11,000,000 for the purpose of taking advantage of favorable interest rates to refinance prior debt obligations with 1) First National Bank totaling \$1,250,879 and 2) PNC Bank, totaling \$8,886,689. The terms of the Water Revenue Note – Series of 2014 call for current principal and interest payments at the applicable rate payable on the 20<sup>th</sup> day of each month, beginning January 20, 2015, and continuing until this Note is paid in full. The current interest rate on the Note is equal to LIBOR plus 1.40% per annum, with the Note scheduled to mature on December 20, 2018. The Note is secured by the gross receipts of the Authority. The following summarizes the remaining debt service obligations of the Authority on this Note as of December 31, 2016:

| <u>Dec 31</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|---------------|---------------------|-------------------|---------------------|
| 2017          | \$ 2,772,425        | \$ 78,515         | \$ 2,850,940        |
| 2018          | 2,824,797           | 26,143            | 2,850,940           |
|               | <u>\$ 5,597,222</u> | <u>\$ 104,658</u> | <u>\$ 5,701,880</u> |

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 6 – LONG-TERM DEBT OBLIGATIONS (Continued)**

The following represents the changes in the Authority's debt obligations during 2016 and 2015:

|                      | <b>Balance 1/1/16</b> | <b>Additions</b> | <b>Principal Payments</b> | <b>Balance 12/31/16</b> | <b>Due Within One Year</b> |
|----------------------|-----------------------|------------------|---------------------------|-------------------------|----------------------------|
| PENNVEST Notes       | \$ 7,239,603          | \$ -             | \$ (434,255)              | \$ 6,805,348            | \$ 409,843                 |
| Penn Works Note      | 1,254,941             | -                | (97,652)                  | 1,157,289               | 108,590                    |
| First National Bank  | 8,318,250             | -                | (2,721,028)               | 5,597,222               | 2,772,425                  |
| FNB - Line of Credit | -                     | -                | -                         | -                       | -                          |
|                      | <u>\$ 16,812,794</u>  | <u>\$ -</u>      | <u>\$ (3,252,935)</u>     | <u>\$ 13,559,859</u>    | <u>\$ 3,290,858</u>        |

|                      | <b>Balance 1/1/15</b> | <b>Additions</b> | <b>Principal Payments</b> | <b>Balance 12/31/15</b> | <b>Due Within One Year</b> |
|----------------------|-----------------------|------------------|---------------------------|-------------------------|----------------------------|
| PENNVEST Notes       | \$ 7,754,386          | \$ -             | \$ (514,783)              | \$ 7,239,603            | \$ 434,255                 |
| Penn Works Note      | 1,368,066             | -                | (113,125)                 | 1,254,941               | 97,652                     |
| First National Bank  | 11,000,000            | -                | (2,681,750)               | 8,318,250               | 2,722,680                  |
| FNB - Line of Credit | -                     | -                | -                         | -                       | -                          |
|                      | <u>\$ 20,122,452</u>  | <u>\$ -</u>      | <u>\$ (3,309,658)</u>     | <u>\$ 16,812,794</u>    | <u>\$ 3,254,587</u>        |

In connection with the Authority's prior year refunding of its Series of 2002 and Series of 2006 Water and Hydroelectric Revenue Bonds, the Authority recognized \$422,840 as deferred interest on advance refunding. This amount is being amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter, using the straight line method. The unamortized 'deferred interest on advance refunding' is reflected as 'deferred inflow of resources' in Exhibit A totaling \$105,714 and \$158,568 respectively as of December 31, 2016 and 2015. Amortization of this deferred interest for calendar year 2016 and 2015 was \$52,854 each year, and is reflected as a component of 'interest expense' (Exhibit B).

**NOTE 7 – AUTHORITY PENSION PLAN**

**Plan Administration**

The Beaver Falls Municipal Authority Pension Plan is a single-employer defined benefit pension plan. The Plan was established February 1, 1955. The Plan was amended and restated effective January 1, 2014. The Plan is governed by the Board of Directors of the Beaver Falls Municipal Authority which may amend plan provisions, and which is responsible for the management of Plan assets. The Board of Directors has delegated the authority to manage certain Plan assets to Wells Fargo Bank. The plan is required to file Form PC-203C biennially with the Pennsylvania Department of the Auditor General's Municipal Pension Reporting Program (MPRP). The most recent filing was as of January 1, 2015.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 7 – AUTHORITY PENSION PLAN (Continued)**

Plan membership as of December 31, 2016 was comprised of:

|                                                                         |    |
|-------------------------------------------------------------------------|----|
| Active employees                                                        | 36 |
| Retirees and beneficiaries currently receiving benefits                 | 28 |
| Terminated employees entitled to benefits<br>but not yet receiving them | 1  |
| Total                                                                   | 65 |

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

- PARTICIPANTS** - All full-time employees of the Authority.
- ELIGIBILITY** - All participants are eligible for retirement benefits provided that they have attained the age of 62 and have completed 15 years of credited service. Participants are eligible for early retirement at age 55 provided the sum of the participant's age and years of credited service total at least 70.
- VESTING** - Vesting occurs 100% after ten years of credited service.
- BENEFITS** - 1.8% of Average Monthly Earnings times credited service.
- DEATH BENEFIT** - The plan provides for beneficiary benefits named by the participant under options as detailed in the retirement plan.
- FUNDING** - Members are neither required nor permitted to contribute to the plan.

**Contributions**

The employer follows the funding policy prescribed by Act 205 of 1984 (as amended), which requires that annual contributions be based upon the Minimum Municipal Obligation (MMO) using the plan's most recent biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability.

Employees are not required to contribute to the Plan.

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or plan earnings.

**Deposits**

At December 31, 2016, the Plan held no deposits.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 7 – AUTHORITY PENSION PLAN (Continued)**

**Investments**

The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. According to an investment policy statement, the Plan's target asset allocation is as follows:

| <u>Asset Class</u> | <u>Target Percentage</u> | <u>Range</u> |
|--------------------|--------------------------|--------------|
| Equity             | 50%                      | 40% to 60%   |
| Fixed Income       | 45%                      | 40% to 60%   |
| Cash Equivalents   | 5%                       | 0% to 20%    |

*Credit Risk* for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit ratings of the plan's investments (excluding obligations explicitly guaranteed by the U.S. government) are indicated as follows:

| <u>Investment Type</u>    | <u>Fair Value</u>   | <u>Credit Rating</u> |
|---------------------------|---------------------|----------------------|
| Money Market              | \$ 304,699          | Not Rated            |
| Fixed Income Mutual Funds | 4,288,388           | Not Rated            |
| Total                     | <u>\$ 4,593,087</u> |                      |

*Concentration of Credit Risk* is the risk of loss attributed to the magnitude of an investment in a single issuer. At December 31, 2016, the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuers that represent 5% or more of Fiduciary Net Position. (\$11,992,203 x 5% = \$599,610)

The plan has no investment policy for interest rate risk other than the 60 percent limit on fixed income securities. The maturities of the plan's debt investments are as follows:

| <u>Investment Type</u>      | <u>Fair Value</u> | <u>Investment Maturities (In Years)</u> |                 |             |                     |
|-----------------------------|-------------------|-----------------------------------------|-----------------|-------------|---------------------|
|                             |                   | <u>Less Than 1</u>                      | <u>1 - 5.99</u> | <u>6-10</u> | <u>More Than 10</u> |
| Fixed Income Mutual Funds * | \$4,288,388       |                                         | \$4,288,388     |             |                     |

\*average portfolio duration

**Net Pension Liability**

The components of the net pension liability at December 31, 2016 are as follows:

|                             |                   |
|-----------------------------|-------------------|
| Total pension liability     | \$ 12,806,473     |
| Plan fiduciary net position | <u>11,992,203</u> |
| Net pension liability       | <u>\$ 814,270</u> |

|                                                                               |       |
|-------------------------------------------------------------------------------|-------|
| Plan fiduciary net position as a percentage of<br>The total pension liability | 93.6% |
|-------------------------------------------------------------------------------|-------|

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 7 – AUTHORITY PENSION PLAN (Continued)**

**Net Pension Liability (Continued)**

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

Actuarial assumptions:

|                                    |                                                                                                                                                  |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Inflation:                         | 3.0%                                                                                                                                             |
| Salary increases:                  | 4.5% including inflation                                                                                                                         |
| Mortality:                         | RP-2000 Combined Healthy Mortality Table with rates set forward 5 years for disabled lives. Rates are projected to improve with 75% of scale AA. |
| Expected Long-Term Rate of Return: | 7.0%, applied to all periods                                                                                                                     |

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investment expenses not funded through the MMO) 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. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2016 are summarized as follows:

| <u>Asset Class</u>        | <u>Long Term<br/>Expected Real ROR</u> |
|---------------------------|----------------------------------------|
| Equities                  | 6.3%                                   |
| Fixed Income              | 1.9%                                   |
| Cash and Cash Equivalents | 0.0%                                   |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that the plan will continue to be funded based on the Minimum Municipal Obligation as determined in accordance with Act 205. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 7 – AUTHORITY PENSION PLAN (Continued)**

The following shows the changes in the Total Pension Liability (TPL), the Plan Fiduciary Net Position (fair value of plan assets), and the Net Pension Liability (NPL) as of the Measurement date (12/31/2015):

|                                                       | <b>Total Pension<br/>Liability<br/>( a )</b> | <b>Plan Fiduciary<br/>Net Position<br/>( b )</b> | <b>Net Pension<br/>Liability<br/>( c )</b> |
|-------------------------------------------------------|----------------------------------------------|--------------------------------------------------|--------------------------------------------|
| <b>Balances at 12/31/15</b>                           | \$ 12,301,686                                | \$ 11,072,201                                    | \$ 1,229,485                               |
| Changes for the year:                                 |                                              |                                                  |                                            |
| Service cost                                          | 264,606                                      | -                                                | 264,606                                    |
| Interest                                              | 856,335                                      | -                                                | 856,335                                    |
| Changes of benefits                                   | -                                            | -                                                | -                                          |
| Changes of assumptions                                | -                                            | -                                                | -                                          |
| Differences between expected<br>and actual experience | (59,126)                                     | -                                                | (59,126)                                   |
| Contributions - employer                              | -                                            | 417,283                                          | (417,283)                                  |
| Contributions - employee                              | -                                            | -                                                | -                                          |
| Net investment income                                 | -                                            | 1,072,320                                        | (1,072,320)                                |
| Market value investment income                        | -                                            | -                                                | -                                          |
| Transfers                                             | -                                            | -                                                | -                                          |
| Benefit payments                                      | (557,028)                                    | (557,028)                                        | -                                          |
| Administrative expense                                | -                                            | (12,573)                                         | 12,573                                     |
| Other changes                                         | -                                            | -                                                | -                                          |
| Net changes                                           | <u>504,787</u>                               | <u>920,002</u>                                   | <u>(415,215)</u>                           |
| <b>Balances at 12/31/16</b>                           | <u>\$ 12,806,473</u>                         | <u>\$ 11,992,203</u>                             | <u>\$ 814,270</u>                          |

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

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

|                       | <b>1% Decrease<br/>(6.0%)</b> | <b>Current<br/>Discount Rate<br/>(7.0%)</b> | <b>1% Increase<br/>(8.0%)</b> |
|-----------------------|-------------------------------|---------------------------------------------|-------------------------------|
| Net pension liability | \$ 2,149,288                  | \$ 814,270                                  | \$ (338,453)                  |

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 7 – AUTHORITY PENSION PLAN (Continued)**

**Payable to the Pension Plan**

At December 31, 2016, the Authority did not owe anything to the Plan.

**Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

**Components of Pension Expenses for the Year Ended December 31, 2016:**

|                                                                                      |                                 |
|--------------------------------------------------------------------------------------|---------------------------------|
| Service Cost                                                                         | \$ 264,606                      |
| Interest on the total pension liability                                              | 856,335                         |
| Recognition of differences between expected and actual experience                    | (10,662)                        |
| Changes in benefit terms                                                             | -                               |
| Amortization of changes of assumptions                                               | -                               |
| Employee contributions                                                               | -                               |
| Projected earnings on pension plan investments                                       | (761,916)                       |
| Recognition of differences between projected and actual earnings on plan investments | 106,966                         |
| Pension plan administrative expense                                                  | 12,573                          |
| Other changes in fiduciary net position                                              | -                               |
| <b>Total pension expense</b>                                                         | <b><u><u>\$ 467,902</u></u></b> |

At December 31, 2016, the Plan reported the following deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

|                                                                                  | <b><u>Deferred<br/>Outflows of<br/>Resources</u></b> | <b><u>Deferred<br/>Inflows of<br/>Resources</u></b> |
|----------------------------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------|
| Differences between expected and actual experience                               | \$ -                                                 | \$ 50,989                                           |
| Changes of assumptions                                                           | -                                                    | -                                                   |
| Net difference between projected and actual earnings on pension plan investments | <u>507,140</u>                                       | <u>248,323</u>                                      |
| TOTAL                                                                            | <b><u><u>\$ 507,140</u></u></b>                      | <b><u><u>\$ 299,312</u></u></b>                     |



**BEAVER FALLS MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 7 – AUTHORITY PENSION PLAN (Continued)**

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

| <u>December 31,</u> |    |          |
|---------------------|----|----------|
| 2017                | \$ | 96,304   |
| 2018                |    | 96,304   |
| 2019                |    | 96,304   |
| 2020                |    | (72,742) |
| 2021                |    | (8,341)  |
| Thereafter          |    | -        |

**NOTE 8 - RISK MANAGEMENT**

The Beaver Falls Municipal Authority is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES**

**Construction Commitments**

The Beaver Falls Municipal Authority, as part of its overall capital improvement projects, enters into construction commitments with various third party contractors. As of December 31, 2016, the Authority had various commitments outstanding on these projects.

**Legal Matters**

The Beaver Falls Municipal Authority, on occasion, can be party to various legal actions arising from normal business operations. As of December 31, 2016, the Authority is unaware of any pending litigation that would be material to the financial position of the Beaver Falls Municipal Authority.

**NOTE 10 – SUBSEQUENT EVENTS**

Management has determined that there are no events subsequent to December 31, 2016 through the date of the 'Independent Auditor's Report' date, which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

***REQUIRED  
SUPPLEMENTARY  
INFORMATION***

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

|                                                                        | <u>2016</u>          | <u>2015</u>          | <u>2014</u>          |
|------------------------------------------------------------------------|----------------------|----------------------|----------------------|
| <b>Total Pension Liability-Beginning</b>                               | \$ 12,301,686        | \$ 11,670,486        | \$ 11,141,966        |
| Service Cost                                                           | 264,606              | 260,587              | 265,144              |
| Interest                                                               | 856,335              | 821,959              | 780,698              |
| Changes of Benefit Terms                                               | -                    | 68,012               | -                    |
| Differences Between Expected and Actual Experience                     | (59,126)             | (2,993)              | -                    |
| Changes of Assumptions                                                 | -                    | -                    | -                    |
| Benefit payments, including Refunds of Members Contributions           | (557,028)            | (516,365)            | (517,322)            |
| Net Change in Total Pension Liability                                  | <u>\$ 504,787</u>    | <u>\$ 631,200</u>    | <u>\$ 528,520</u>    |
| Total Pension Liability-Ending                                         | <u>\$ 12,806,473</u> | <u>\$ 12,301,686</u> | <u>\$ 11,670,486</u> |
| <br>                                                                   |                      |                      |                      |
| Plan Fiduciary Net Position-Beginning                                  | \$ 11,072,201        | \$ 11,201,536        | \$ 10,622,778        |
| Contributions-employer                                                 | 417,283              | 471,406              | 466,706              |
| Contributions-employee                                                 | -                    | -                    | -                    |
| Net Investment Income                                                  | 1,072,320            | (72,033)             | 641,492              |
| Benefit payments, including Refunds of Employee Contributions          | (557,028)            | (516,365)            | (517,322)            |
| Administrative Expense                                                 | (12,573)             | (12,343)             | (12,117)             |
| Other                                                                  | -                    | -                    | -                    |
| Change in Plan Fiduciary Net Position                                  | <u>\$ 920,002</u>    | <u>\$ (129,335)</u>  | <u>\$ 578,758</u>    |
| Plan Fiduciary Net Position-Ending                                     | <u>\$ 11,992,203</u> | <u>\$ 11,072,201</u> | <u>\$ 11,201,536</u> |
| Net Pension Liability-Ending                                           | <u>\$ 814,270</u>    | <u>\$ 1,229,485</u>  | <u>\$ 468,950</u>    |
| <br>                                                                   |                      |                      |                      |
| <b>RATIOS:</b>                                                         |                      |                      |                      |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 93.6%                | 90.01%               | 95.98%               |
| Covered-employee Payroll                                               | \$ 2,552,414         | \$ 2,727,604         | \$ 2,888,773         |
| Net Pension Liability as a Percentage of Covered-employee Payroll      | 31.9%                | 45.1%                | 16.2%                |

NOTE: Schedule requires information for past 10 calendar years. Most recent actuarial valuation presents information for calendar years 2014 through 2016 only.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**SCHEDULE OF ACTUARIALLY DETERMINED PENSION CONTRIBUTION AND RELATED RATIOS**  
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

|                                                           | <u>12/31/2016</u> | <u>12/31/2015</u> | <u>12/31/2014</u> |
|-----------------------------------------------------------|-------------------|-------------------|-------------------|
| Actuarially Determined Contribution                       | \$ 417,283        | \$ 471,406        | \$ 466,706        |
| Contributions                                             | <u>417,283</u>    | <u>471,406</u>    | <u>466,706</u>    |
| Contribution Deficiency (Excess)                          | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       |
| <b>RATIOS:</b>                                            |                   |                   |                   |
| Covered-employee Payroll                                  | \$ 2,552,414      | \$ 2,727,604      | \$ 2,888,773      |
| Contributions as a Percentage of Covered-employee Payroll | 16.3%             | 17.3%             | 16.2%             |

**NOTES TO SCHEDULE:**

Valuation Date - January 1, 2015

**Methods and Assumptions used to Determine Contribution Rates:**

Actuarial cost method: Entry Age  
Amortization method: Level Dollar Closed  
Remaining amortization period: 11 years (aggregate)  
Asset valuation method: 4-year smoothing  
Inflation: 3.0%  
Salary increases: 4.5% including inflation  
Investment rate of return: 7.0% net of investment expenses not funded through the MMO, and including inflation  
Mortality: RP-2000 Healthy Combined Mortality Table with Rates set forward 5 years for disabled members. Rates projected with 75% of scale AA.  
Retirement Age: If eligibility for early or normal retirement. annual rates of retirement are based on years of service:

| Age Group | ----- Years of Service ----- |       |      |
|-----------|------------------------------|-------|------|
|           | < 20                         | 20-24 | 25+  |
| 55-59     | 2%                           | 3%    | 5%   |
| 60-61     | 5%                           | 10%   | 10%  |
| 62-64     | 35%                          | 35%   | 35%  |
| 65+       | 100%                         | 100%  | 100% |

**Changes to Benefits:**

Effective 1/1/2015, Plan amended to provide early retirement window. Participants who were at least 58 with 20 years of service could retire by March 1, 2014 without a reduction for early retirement.

**Changes to Assumptions:**

Effective 1/1/2013, interest rate reduced from 7.5% to 7%, salary scale reduced from 5% to 4.5%. Mortality assumption updated to assume that rates are projected to improve at 75% of scale AA.

NOTE: Schedule requires information for past 10 calendar years. Most recent actuarial valuation presents information for calendar years 2014 through 2016 only.

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**SCHEDULE OF INVESTMENT RETURNS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Investment Returns**  
Last 2 Fiscal Years

Annual money-weighted rate of return, net of investment expense not funded through the MMO.

|      |        |
|------|--------|
| 2015 | -0.65% |
| 2016 | 9.82%  |

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**SCHEDULE OF FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

| <u>ACTUARIAL<br/>VALUATION<br/>DATE</u> | <u>ACTUARIAL<br/>VALUE<br/>OF ASSETS</u> | <u>ACTUARIAL<br/>ACCRUED<br/>LIABILITY</u> | <u>UNFUNDED<br/>ACTUARIAL<br/>ACCRUED<br/>LIABILITY</u> | <u>FUNDED<br/>RATIO</u> | <u>COVERED<br/>PAYROLL</u> | <u>UAAL AS<br/>A % OF<br/>COVERED<br/>PAYROLL</u> |
|-----------------------------------------|------------------------------------------|--------------------------------------------|---------------------------------------------------------|-------------------------|----------------------------|---------------------------------------------------|
| 1/1/2013                                | \$ 9,007,189                             | \$ 10,616,550                              | \$ 1,609,361                                            | 84.8%                   | \$2,647,081                | 60.8%                                             |
| 1/1/2015                                | 10,579,336                               | 11,735,505                                 | 1,156,169                                               | 90.1%                   | 2,888,773                  | 40.0%                                             |

***SUPPLEMENTARY  
INFORMATION***

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**SCHEDULE OF DETAIL OPERATING EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                             | <b><u>2016</u></b>         | <b><u>2015</u></b>         |
|---------------------------------------------|----------------------------|----------------------------|
| <b>PURIFYING SYSTEM:</b>                    |                            |                            |
| Eastvale - Operations Labor                 | \$ 421,427                 | \$ 410,045                 |
| Eastvale - Purification Supplies            | 554,507                    | 504,734                    |
| Eastvale - Maintenance Purification Labor   | 196,911                    | 237,949                    |
| Eastvale - Maintenance Purification Expense | 129,440                    | 133,286                    |
| Eastvale - Supplies and Expense             | 57,395                     | 65,327                     |
| Eastvale - Electric Expense                 | 324,135                    | 361,193                    |
| Eastvale - Maintenance Pump System          | 526                        | 581                        |
| Eastvale - Maintenance Pump Expense         | 36,372                     | 25,488                     |
| Sludge Operations - Labor                   | 12,019                     | 18,538                     |
| Sludge Operations - Expenses                | 88,214                     | 125,212                    |
| Sludge Operations - Maintenance Labor       | 9,192                      | 28,616                     |
| Laboratory - Labor                          | 23,638                     | 13,389                     |
| Laboratory - Supplies and Expenses          | 107,499                    | 96,452                     |
| <b>TOTAL PURIFYING SYSTEM</b>               | <b><u>\$ 1,961,275</u></b> | <b><u>\$ 2,020,810</u></b> |
| <b>HYDROELECTRIC PLANT SYSTEM:</b>          |                            |                            |
| Hydroplant - Labor                          | \$ 100,874                 | \$ 110,377                 |
| Hydro Extraordinary Expense                 | -                          | 3,313                      |
| Hydroplant - Electric Expense               | 16,621                     | 21,766                     |
| Hydroplant - Maintenance Expense            | 374,342                    | 148,515                    |
| <b>TOTAL HYDROELECTRIC PLANT SYSTEM</b>     | <b><u>\$ 491,837</u></b>   | <b><u>\$ 283,971</u></b>   |
| <b>PUMPING SYSTEM</b>                       |                            |                            |
| Labor                                       | \$ 46,765                  | \$ 33,235                  |
| Supplies and Expenses                       | 29,753                     | 17,530                     |
| Electric Expense                            | 249,914                    | 271,768                    |
| <b>TOTAL PUMPING SYSTEM</b>                 | <b><u>\$ 326,432</u></b>   | <b><u>\$ 322,533</u></b>   |

The accompanying notes are an integral part of these financial statements



**BEAVER FALLS MUNICIPAL AUTHORITY**  
**SCHEDULE OF DETAIL OPERATING EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                                    | <b>2016</b>         | <b>2015</b>         |
|----------------------------------------------------|---------------------|---------------------|
| <b>DISTRIBUTION SYSTEM:</b>                        |                     |                     |
| Street Opening Inspections                         | \$ 178,428          | \$ 172,816          |
| Other Supplies and Expense                         | 21,199              | 32,621              |
| Maintenance of Distribution Mains - Labor          | 391,254             | 426,837             |
| Maintenance of Distribution Mains - Expense        | 432,807             | 381,917             |
| Maintenance of Services - Labor                    | 90,147              | 121,787             |
| Maintenance of Services - Expenses                 | 16,119              | 33,614              |
| Maintenance of Tanks and Std Pipes - Labor         | 8,093               | 15,498              |
| Maintenance of Tanks and Std Pipes - Expense       | 48,685              | 56,108              |
| Maintenance of Meters - Expense                    | 10,087              | 13,578              |
| Maintenance of Fire Hydrants - Labor               | 70,805              | 65,076              |
| Maintenance of Fire Hydrants - Expense             | 14,398              | 17,175              |
| <b>TOTAL DISTRIBUTION SYSTEM</b>                   | <b>\$ 1,282,022</b> | <b>\$ 1,337,027</b> |
| <b>GENERAL AND ADMINISTRATIVE:</b>                 |                     |                     |
| Service Work - Labor                               | \$ 232,389          | \$ 280,292          |
| Service Work - Mileage - Expense                   | 36,495              | 39,060              |
| Meter Reading - Labor                              | 51,398              | 37,005              |
| Meter Reading - Expense                            | 6,399               | 8,439               |
| Employees Salary Expense                           | 646,401             | 649,226             |
| Office Supplies and Expense                        | 6,103               | 7,526               |
| General Officers Expense                           | 6,368               | 3,642               |
| Office Expense                                     | 297,965             | 271,659             |
| Audit Fees                                         | 13,000              | 12,500              |
| Engineers Expense                                  | 118,567             | 61,224              |
| Taxes Expense                                      | 230,124             | 230,392             |
| Uncollectible Consumers - Account                  | 12,014              | 16,566              |
| General Law Expense                                | 23,929              | 37,224              |
| General & Administrative Expense                   | 7,783               | 7,598               |
| Insurance Expense                                  | 910,269             | 846,074             |
| Dental Expense                                     | 25,266              | 28,928              |
| Vision Expense                                     | 10,622              | 10,674              |
| Pensions Expense                                   | 467,902             | 558,279             |
| Inventory Adjustment Expense/Extraordinary Expense | -                   | 18,420              |
| Truck and Auto Expense                             | (119)               | -                   |
| Property Maintenance Expense                       | 8,430               | 12,415              |
| Workers Compensation Account                       | 732                 | 5,854               |
| Accrued Payable Expense                            | 94,048              | 81,126              |
| Transfers Out (Capitalized Overhead)               | (100,007)           | (66,533)            |
| <b>TOTAL GENERAL AND ADMINISTRATIVE</b>            | <b>\$ 3,106,078</b> | <b>\$ 3,157,590</b> |
| <b>DEPRECIATION:</b>                               |                     |                     |
| Other Deduction - Depreciation                     | \$ 1,997,407        | \$ 1,929,413        |
| <b>TOTAL DEPRECIATION</b>                          | <b>\$ 1,997,407</b> | <b>\$ 1,929,413</b> |

The accompanying notes are an integral part of these financial statements

**BEAVER FALLS MUNICIPAL AUTHORITY**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                                              | <u>2016</u>          |                      | <u>2015</u>           |                      |                      |                       |
|--------------------------------------------------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|
|                                                              | <u>Budget</u>        | <u>Actual</u>        | <u>Variance</u>       | <u>Budget</u>        | <u>Actual</u>        | <u>Variance</u>       |
| <b>OPERATING REVENUES</b>                                    |                      |                      |                       |                      |                      |                       |
| Water Revenues                                               | \$ 10,834,090        | \$ 10,943,774        | \$ 109,684            | \$ 10,232,957        | \$ 10,435,120        | \$ 202,163            |
| Hydroelectric                                                | 1,242,750            | 1,101,043            | (141,707)             | 1,025,000            | 1,140,322            | 115,322               |
| <b>Total Operating Revenues</b>                              | <b>\$ 12,076,840</b> | <b>\$ 12,044,817</b> | <b>\$ (32,023)</b>    | <b>\$ 11,257,957</b> | <b>\$ 11,575,442</b> | <b>\$ 317,485</b>     |
| <b>OPERATING EXPENSES</b>                                    |                      |                      |                       |                      |                      |                       |
| Purifying System                                             | \$ 2,167,490         | \$ 1,961,275         | \$ (206,215)          | \$ 2,075,767         | \$ 2,020,810         | \$ (54,957)           |
| Hydroelectric Plant System                                   | 370,400              | 491,837              | 121,437               | 370,400              | 283,971              | (86,429)              |
| Pumping System                                               | 354,760              | 326,432              | (28,328)              | 331,616              | 322,533              | (9,083)               |
| Distribution System                                          | 1,421,772            | 1,282,022            | (139,750)             | 1,268,105            | 1,337,027            | 68,922                |
| General and Administrative                                   | 3,117,456            | 3,106,078            | (11,378)              | 3,081,860            | 3,157,590            | 75,730                |
|                                                              | \$ 7,431,878         | \$ 7,167,644         | \$ (264,234)          | \$ 7,127,748         | \$ 7,121,931         | \$ (5,817)            |
| Depreciation                                                 | -                    | 1,997,407            | 1,997,407             | -                    | 1,929,413            | 1,929,413             |
| <b>Total Operating Expenses</b>                              | <b>\$ 7,431,878</b>  | <b>\$ 9,165,051</b>  | <b>\$ 1,733,173</b>   | <b>\$ 7,127,748</b>  | <b>\$ 9,051,344</b>  | <b>\$ 1,923,596</b>   |
| <b>Income from Operations</b>                                | <b>\$ 4,644,962</b>  | <b>\$ 2,879,766</b>  | <b>\$ (1,765,196)</b> | <b>\$ 4,130,209</b>  | <b>\$ 2,524,098</b>  | <b>\$ (1,606,111)</b> |
| <b>NON-OPERATING INCOME (EXPENSE)</b>                        |                      |                      |                       |                      |                      |                       |
| Interest Income                                              | \$ 2,399             | \$ 3,459             | \$ 1,060              | \$ 465               | \$ 2,746             | \$ 2,281              |
| Other Income                                                 | 62,632               | 53,618               | (9,014)               | 282,460              | 56,631               | (225,829)             |
| Interest Expense                                             | -                    | (318,392)            | (318,392)             | -                    | (338,009)            | (338,009)             |
| <b>Total Non-Operating Income (Expenses)</b>                 | <b>\$ 65,031</b>     | <b>\$ (261,315)</b>  | <b>\$ (326,346)</b>   | <b>\$ 282,925</b>    | <b>\$ (278,632)</b>  | <b>\$ (561,557)</b>   |
| <b>INCREASE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b> | <b>\$ 4,709,993</b>  | <b>\$ 2,618,451</b>  | <b>\$ (2,091,542)</b> | <b>\$ 4,413,134</b>  | <b>\$ 2,245,466</b>  | <b>\$ (2,167,668)</b> |
| <b>CONTRIBUTIONS</b>                                         |                      |                      |                       |                      |                      |                       |
| Developer Contributions of Systems                           | -                    | 157,352              | 157,352               | -                    | 67,340               | 67,340                |
| <b>INCREASE IN NET POSITION</b>                              | <b>\$ 4,709,993</b>  | <b>\$ 2,775,803</b>  | <b>\$ (1,934,190)</b> | <b>\$ 4,413,134</b>  | <b>\$ 2,312,806</b>  | <b>\$ (2,100,328)</b> |

The accompanying notes are an integral part of these financial statements