

**North Huntingdon Township
Municipal Authority**

A Component Unit of
North Huntingdon Township

Financial Statements
and Required Supplementary
and Supplementary Information

Years Ended April 30, 2014 and 2013
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

YEARS ENDED APRIL 30, 2014 AND 2013

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Independent Auditor's Report

Board of Directors
North Huntingdon Township Municipal Authority

We have audited the accompanying financial statements of the North Huntingdon Township Municipal Authority, a component unit of North Huntingdon Township (Township), as of and for the years ended April 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the entity as of April 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information on pages i through viii, and pages 27 through 29, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the entity's basic financial statements. The Analysis of Operating Revenues and Expenses and Schedules of Balances – Trustee Controlled Accounts are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Maher Duessel

Pittsburgh, Pennsylvania
August 18, 2014

North Huntingdon Township Municipal Authority Management's Discussion and Analysis

This section of the North Huntingdon Township Municipal Authority's (Authority) financial report presents an analysis of the Authority's financial condition and performance for the fiscal year 2014 that ended on April 30, 2014. Please read it in conjunction with the Authority's Financial Statements, which follow this section.

FINANCIAL HIGHLIGHTS

Revenues

- Total operating revenues increased by \$831,923 or 10.24%, in fiscal year 2014.
- Delinquencies increased from an average of 5.73% in 2013 to 6.03% in 2014. This can be largely attributed to the overall state of the economy. However, this figure is calculated at the beginning of each new billing cycle, based on the unpaid balance from the previous cycle, and normally drops significantly after delinquent notices and certified letters are mailed and late payments are received. Also, it is worth noting that we are aggressively pursuing our delinquent accounts.

Expenses

- Operating expenses increased by \$206,071 or 3.3%.

Budgeting

- Comparing budget to actual, revenues were \$124,405 higher, or a variance of 1.4%.
- Comparing budget to actual, expenses were \$539,008 lower, or a variance of 10.2%.
- Comparing budget to actual, operating income, before depreciation, was \$663,413 higher, or a variance of 18.6%.

Long-Term Debt

- The Authority entered into a Swaption contract on October 20, 2005 that gave the counterparty (PNC) the option to make the Authority enter into a receivable-variable pay-fixed interest rate swap on the first day of each month commencing May 1, 2011 and terminating on April 1, 2020. The counterparty exercised this option April 1, 2011 which resulted in the Authority refunding the previously existing Guaranteed Sewer Revenue Bonds, Series of 2001 and issuing Variable Rate Demand Revenue

Bonds, Series of 2011. Further disclosure regarding the Authority's derivative transaction can be found in Notes 2, 5, and 12 to the financial statements.

- Remaining balances on long-term debt at fiscal year-end were:

2011 Bond Issue	\$ 6,755,000
2002 PennVEST Loan	2,219,495
2006 Rev. Obligation Note	791,973 (Yough Garage & Office)
Total	\$ 9,766,468

Other

- The Authority remained in compliance with all debt covenants required by its borrowing agreements.
- The system grew with 59 new customers to 11,888 active customers.

Fiscal Year 2014 Projects

Projects Undertaken in Fiscal Year 2014:

- Continued cleaning and televising lines in the Brush Creek System as part of Western Westmoreland Municipal Authority's (WWMA) Long-Term Control Plan.
- Continued program of televising private laterals at the time of home sales and refinancing. Since the program's inception in May 2008, 2,901 homes have been tested through the end of fiscal year 2014, resulting in a 32% failure rate.
- Completed the sewerage line replacement in Country Hills Phase 3.
- Completed the chlorine gas disinfectant system at Yough Treatment Plant with sodium hypochlorite.
- Tested the integrity of dry wells of pump stations, determined that interior coating of "canned" Smith & Loveless pump stations was not needed.
- Installed a large retaining wall at the Youghohioghenny Treatment Facility.
- Relocated emergency bypass at Stewartsville Pump Station and re-route storm water lines.
- Replaced the Garage Doors at the Youghohioghenny Treatment Facility.
- Purchased new Crane Maintenance Vehicle.

- Conducted full re-appraisal of Authority's assets.

Fiscal Year 2015 Projects

Projects Scheduled for Fiscal Year 2015:

The Authority's five-year capital plan projects \$3.274 million in expenditures in fiscal year 2015, which include:

- Replace lines in Phase 1 of the Penns Woods Plan line replacement project.
- Prepare plans and specifications to replace lines in Phase 2 of the Penns Woods Plan.
- Relocation of the Electrical Control Panels at our Smith & Loveless Pump Stations.
- Replace Jet/Vacuum Unit.
- Lower Yough Pump Station modifications, on-going.
- Grit removal system at Youghiogheny Treatment Facility, on-going.
- Continue to clean, televise, and repair main and private lines in the Brush Creek system under the WWMA Long-Term Control Plan and as a result of the DEP-imposed Corrective Action Plan for the WWMA system.
- Indian Lake force main manhole rehabilitation project, on-going.

Other Actions Anticipated During Fiscal Year 2015:

- Instituted a \$1.00 per month rate increase effective May 1, 2014 to cover increased capital expenses to repair the aging infrastructure in accordance with the five-year Capital Improvements Plan.
- Update GIS system using ArcView software to ensure coordination with North Huntingdon Township's (Township) system.
- Still awaiting final DEP approval to Township-wide Act 537 Plan and receive partial reimbursement.

RESIDENTIAL AND COMMERCIAL DEVELOPMENT

Approximately, one-half of the sewage generated in the Township is treated at the Brush Creek Water Pollution Control Plant on Route 993. This plant is owned and operated

by the WWMA, although the Authority owns and maintains the lines that convey flow to that facility. The Authority also handles the billing and collection for these customers. The remaining one-half of the flow is treated at the Authority's Youghiogheny Water Pollution Control Facility in Turner Valley.

The Brush Creek Water Pollution Control Plant is under a 2010 DEP-imposed tap restriction, which has increased the paperwork involved in obtaining tap permits for this area but has not severely impacted development. The Yough basin has no restrictions at the present time.

During fiscal year 2014, two major residential subdivisions started construction. Dartmoor Estates is located within the Yough Drainage Basin and Hampton Heights Phases 3 & 4 is located in the Brush Creek Drainage Basin.

During fiscal year 2014, 115 new construction permits were issued in the Yough Basin and 35 in the Brush Creek basin.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information on the Authority's use of accounting methods that are similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The Statement of Net Position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its sewage disposal rates and other fees. The Authority's rate studies are updated periodically to reflect both the operating and long-term capital requirements of the Authority. The most recent rate study was completed in 2007 and the five-year Capital Improvements Plan was updated in May 2013.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The Notes to Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The Notes present information about the Authority's accounting policies,

significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

NET POSITION

The summary of the Authority's statements of net position is presented below:

Condensed Statements of Net Position

Table 1

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change
Current assets	\$ 3,203,296	\$ 2,828,077	\$ 375,219
Capital and other long-term assets	46,006,372	45,405,780	600,592
Total Assets	\$ 49,209,668	\$ 48,233,857	\$ 975,811
Derivative instruments	\$ 613,485	\$ 1,010,186	\$ (396,701)
Deferred loss on defeasance	150,499	175,582	(25,083)
Total Deferred Outflows of Resources	\$ 763,984	\$ 1,185,768	\$ (421,784)
Current liabilities	\$ 2,205,516	\$ 2,120,975	\$ 84,541
Current liabilities (payable from restricted assets)	93,957	32,278	61,679
Non-current liabilities	9,388,707	11,191,071	(1,802,364)
Total Liabilities	\$ 11,688,180	\$ 13,344,324	\$ (1,656,144)
Net investment in capital assets	\$ 32,698,393	\$ 29,825,963	\$ 2,872,430
Restricted	2,570,151	3,189,080	(618,929)
Unrestricted	3,016,928	3,060,258	(43,330)
Total Net Position	\$ 38,285,472	\$ 36,075,301	\$ 2,210,171

With the Statements of Net Position giving the view of net changes, the Statements of Revenues, Expenses, and Changes in Net Position give the basis for these changes. A condensed version of the Statements of Revenues, Expenses, and Changes in Net Position is provided:

Condensed Statements of Revenues, Expenses, and Changes in Net Position
Table 2

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change
Operating revenues	\$ 8,953,084	\$ 8,121,161	\$ 831,923
Non-operating revenues	182,257	159,337	22,920
Total Revenues	9,135,341	8,280,498	854,843
Depreciation expense	1,708,243	1,659,855	48,388
Other operating expenses	4,723,716	4,566,034	157,682
Non-operating expenses	493,211	514,191	(20,980)
Total Expenses	6,925,170	6,740,080	185,090
Net Income (Loss)	2,210,171	1,540,418	669,753
Capital contribution revenues	-	107,767	(107,767)
Change in Net Position	2,210,171	1,648,185	561,986
Net position, beginning of year, as restated	36,075,301	34,427,116	1,648,185
Net position, end of year	<u>\$ 38,285,472</u>	<u>\$ 36,075,301</u>	<u>\$ 2,210,171</u>

RESTATEMENT

The Authority adopted GASB Statement No. 65 “*Items Previously Reported as Assets and Liabilities*,” in the current year. This statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. As a result of this statement, bond issuance costs previously capitalized had to be written off and going forward, all bond issuance costs will be expensed when incurred. This resulted in a decrease of \$206,345 to net position as of April 30, 2012.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was incorporated in 1946 under the Municipality Authorities Act of 1945. The Authority was originally formed to act as a water authority. The Authority later became a school authority and finally was charged with the responsibility of constructing and maintaining a sanitary sewer system in 1969.

The Authority operates a 3.31 mgd sewer treatment facility known as the Youghiogheny Sewage Treatment Plant located in Turner Valley, where sewage from approximately one-half of its 11,888 active customers is treated. The remaining half is treated at the Brush Creek Water Pollution Control Plant owned by the WWMA on Route 993 in the Township. In addition, the Authority owns and maintains 13 pump stations, approximately 255 miles of sewer lines, and over 6,000 manholes.

The Authority's Board of Directors (Board) is made up of five members who are appointed by the Township's Board of Commissioners. Board members are appointed for five-year, staggered terms. Day-to-day operation of the Authority is the responsibility of the General Manager, who is hired by the Board to carry out its policies.

The Authority has 23 full-time employees – 17 who work at the Youghiogheny Water Pollution Control Plant and throughout the collection system, and six located in the Administrative Office on the second floor of the Town House at 11265 Center Highway, North Huntingdon, PA.

Regular monthly meetings are held on the second Wednesday of each month beginning at 7:00 PM in training room at the Youghiogheny Water Pollution Control Plant at 4222 Turner Valley Road. The regular meeting is preceded by a public work session at 5:30 PM at the same location.

FUTURE CHALLENGES

The Authority's biggest challenge today, and well into the foreseeable future, continues to be the need to eliminate inflow and infiltration (I&I) of storm water into the sanitary sewer system, as well as to maintain an aging infrastructure. The sanitary sewer system was designed to carry a specific volume of sewage flow. Deteriorating public lines, manholes, private laterals, and illegal connections permit storm water to overload the system during certain wet weather conditions.

These overloads can result in basement flooding, pump station bypasses, and ultimately could require additional retention tanks, or a plant expansion, both of which are costly solutions. Rather than allocate funds to build additional retention, the Authority has implemented other methods of removing I&I, such as inspecting private laterals and requiring homeowners to make repairs when necessary. The Authority will also continue its program of repairing main lines and manholes under its five-year Capital Improvement Plan.

CONTACTING THE AUTHORITY

This financial report is designed to provide our ratepayers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Authority's Manager or Finance Director at 724-863-2860.

Michael L. Branthoover
General Manager

**NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY**

STATEMENTS OF NET POSITION

APRIL 30, 2014 AND 2013

<u>Assets</u>			<u>Liabilities and Net Position</u>		
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
Current assets:			Liabilities:		
Cash	\$ 1,014,931	\$ 671,372	Current liabilities:		
Investments	685,387	685,472	Accounts payable	\$ 646,092	\$ 632,356
Accounts receivable (net of allowance of \$0 for 2014 and 2013):			Accrued payroll and withholdings	153,761	145,649
Sewer service	1,352,222	1,308,289	Current portion of Revenue Obligation Note, Series 2006	103,181	99,237
Assessments and tap-ins	22,609	22,609	Current portion of PennVest loans	213,662	206,865
Interest receivable-assessments	41,587	40,050	Current portion of borrowing payable - derivative transaction	63,820	61,868
Other	3,106	18,620	Current portion of Refunding Bonds, Series of 2011	<u>1,025,000</u>	<u>975,000</u>
Prepaid expenses	<u>83,454</u>	<u>81,665</u>			
			Total current liabilities	<u>2,205,516</u>	<u>2,120,975</u>
Total current assets	<u>3,203,296</u>	<u>2,828,077</u>	Current liabilities (payable from restricted assets):		
			Accounts payable	55,743	8,619
Restricted assets:			Accrued interest payable	8,855	8,856
Cash	141,886	127,223	Developer deposits	<u>29,359</u>	<u>14,803</u>
Investments	<u>2,522,222</u>	<u>3,094,135</u>			
			Total current liabilities (payable from restricted assets)	<u>93,957</u>	<u>32,278</u>
Total restricted assets	<u>2,664,108</u>	<u>3,221,358</u>	Long-term liabilities:		
			Derivative liability	613,485	1,010,186
Capital assets not depreciated	1,945,963	3,628,023	Long-term portion of borrowing payable - derivative transaction	350,597	414,417
Capital assets, net of accumulated depreciation	<u>41,396,301</u>	<u>38,556,399</u>	Loans and bonds payable	<u>8,424,625</u>	<u>9,766,468</u>
Total noncurrent assets	<u>43,342,264</u>	<u>42,184,422</u>	Total long-term liabilities	<u>9,388,707</u>	<u>11,191,071</u>
Total Assets	<u>49,209,668</u>	<u>48,233,857</u>	Total Liabilities	<u>11,688,180</u>	<u>13,344,324</u>
			Net Position:		
Deferred Outflows of Resources			Net investment in capital assets	32,698,393	29,825,963
Derivative instruments	613,485	1,010,186	Restricted	2,570,151	3,189,080
Deferred loss on defeasance	<u>150,499</u>	<u>175,582</u>	Unrestricted	<u>3,016,928</u>	<u>3,060,258</u>
Total Deferred Outflows of Resources	<u>763,984</u>	<u>1,185,768</u>	Total Net Position	<u>38,285,472</u>	<u>36,075,301</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 49,973,652</u>	<u>\$ 49,419,625</u>	Total Liabilities and Net Position	<u>\$ 49,973,652</u>	<u>\$ 49,419,625</u>

See accompanying notes to financial statements.

**NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

YEARS ENDED APRIL 30, 2014 AND 2013

	2014	2013
Operating Revenues:		
Sewer service	\$ 8,367,395	\$ 7,774,948
New construction tap-ins and saddles	526,095	239,981
Existing development tap-ins	59,594	106,232
Total operating revenues	8,953,084	8,121,161
Operating Expenses:		
Sewer system operation	1,971,926	2,086,848
Purchased sewer treatment - WWMA	2,054,051	1,755,857
Administration	697,740	723,329
Depreciation	1,708,243	1,659,855
Total operating expenses	6,431,960	6,225,889
Operating Income	2,521,124	1,895,272
Nonoperating Revenues (Expenses):		
Interest revenue	2,253	6,507
Interest on borrowing payable - derivative instrument	(13,936)	(15,828)
Interest on Variable Rate Demand Revenue Bonds	(345,696)	(354,525)
Interest on PennVest loan	(75,490)	(82,070)
Interest on Revenue Note	(33,006)	(36,685)
Amortization of deferred refunding loss	(25,083)	(25,083)
Miscellaneous	180,005	152,830
Total nonoperating revenues (expenses)	(310,953)	(354,854)
Income before capital contribution revenues	2,210,171	1,540,418
Capital Contribution Revenues	-	107,767
Change in Net Position	2,210,171	1,648,185
Net Position:		
Beginning of year, as restated	36,075,301	34,427,116
End of year	\$ 38,285,472	\$ 36,075,301

See accompanying notes to financial statements.

**NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY**

STATEMENTS OF CASH FLOWS

YEARS ENDED APRIL 30, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash received from customers	\$ 8,937,432	\$ 8,010,363
Cash payments for administrative expenses	(697,740)	(723,329)
Cash payments for operating expenses	(3,957,005)	(3,765,778)
Net cash provided by (used in) operating activities	4,282,687	3,521,256
Cash Flows From Noncapital Financing Activities:		
Miscellaneous	180,005	152,830
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(467,413)	(523,295)
Capital asset purchases, net of capital contributions	(2,866,085)	(2,691,896)
Payment of bond principal	(975,000)	(920,000)
Repayment to PennVest	(206,865)	(200,285)
Repayment of Revenue Obligation Note	(99,237)	(95,559)
Payment of borrowing payable- derivative transaction	(61,868)	(59,975)
Net cash provided by (used in) capital and related financing activities	(4,676,468)	(4,491,010)
Cash Flows From Investing Activities:		
Purchase of investments	(3,576,707)	(3,172,398)
Sale of investments	4,146,452	3,936,487
Interest earned	2,253	6,507
Net cash provided by (used in) investing activities	571,998	770,596
Increase (Decrease) in Cash	358,222	(46,328)
Cash:		
Beginning of year	798,595	844,923
End of year	\$ 1,156,817	\$ 798,595
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 2,521,124	\$ 1,895,272
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Depreciation	1,708,243	1,659,855
Change in operating assets:		
Accounts receivable - sewer service	(43,933)	(128,754)
Accounts receivable - assessments and tap-ins	-	3,000
Accounts receivable - other	15,514	21,915
Prepaid expenses	(1,789)	36
Change in operating liabilities:		
Accounts payable	60,860	81,842
Accrued payroll and withholdings	8,112	(4,915)
Developer's deposits	14,556	(6,995)
Net cash provided by (used in) operating activities	\$ 4,282,687	\$ 3,521,256

See accompanying notes to financial statements.

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2014 AND 2013

1. REPORTING ENTITY

The North Huntingdon Township Municipal Authority (Authority) is a body corporate and politic, organized and existing under the laws of the Commonwealth of Pennsylvania, pursuant to the Municipality Authorities Act of 1945, as amended. The Authority is authorized to acquire, hold, construct, improve, own, maintain, and operate sewage collection and treatment facilities within North Huntingdon Township (Township), Westmoreland County, Pennsylvania.

Under accounting principles generally accepted in the United States of America, the Authority is a component unit of the Township, because the Township appoints all Authority Board members and guarantees its debt. Thus, it is an integral part of the Township and should be included in the financial statements of the Township. However, separate financial statements of the Authority are prepared to satisfy reporting requirements of its debt covenants and the Municipal Authority Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) for governmental enterprise funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing the service to the general public, including depreciation, be financed or recovered primarily through user charges.

The following is a summary of the significant accounting policies of the Authority:

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized. The accompanying financial statements are presented on an accrual basis whereby revenues are recognized when earned, irrespective of when they are billed or collected, and expenses are recognized when incurred.

Statements of Cash Flows

For purposes of the statements of cash flows, cash is defined as bank demand deposits and petty cash on hand.

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2014 AND 2013

Restricted Assets

The Authority has established certain restricted asset accounts to satisfy the requirements of a bond trust indenture. In accordance with the terms of the bond trust indenture, the Authority is required to periodically set aside certain amounts to assure the availability of adequate moneys for servicing the Authority's long-term debt and completing capital additions. These restricted accounts are held by a trustee.

Capital Assets

Capital assets are recorded at cost. Depreciation is provided on all capital assets on a straight-line basis over the following estimated useful lives of the assets:

<u>Assets</u>	<u>Years</u>
Plant and system	15-40
Motor vehicles	5
Office furniture and equipment	10
Tools and equipment	5-10

Deferred Refunding Loss

The deferred refunding loss is amortized over the life of the related bonds utilizing the straight-line method. Any unamortized portion of the deferred refunding loss is reflected as a deferred outflow of resources on the statements of net position.

Contributed Capital

The Authority follows Government Accounting Standards Board (GASB) Statement No. 33, "Accounting for Non-Exchange Transactions." Under the provisions of this Statement, capital contributions are no longer reflected as direct additions to equity but rather are reported as a component of the change in net position.

Net Position

GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted.

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2014 AND 2013

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets. The Authority had restricted net position of \$2,570,151 and \$3,189,080 at April 30, 2014 and 2013, respectively. These amounts are restricted by the debt covenants and by the rate-setting legislation passed by the Authority.
- Unrestricted – This component of net position consists of net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The Authority currently has two items that qualify for reporting in this category: the deferred outflows related to derivative instruments and deferred loss on defeasance on the statements of net position.

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In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflow of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has no deferred inflows at this time.

Receivables

User fees are recognized when earned; accordingly, at year-end, an amount is recognized as revenue for fees that have been earned but not yet billed. Tap-in fees are a one-time charge billed to customers who are connecting to the existing sewer system. The tap-in fees are recognized as revenue when billed to customers.

Accounts receivable are shown net of an allowance of \$0 at April 30, 2014 and 2013. The allowance is determined by management based on specific identification and no allowance was deemed appropriate.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Adopted Pronouncements

GASB Statement No. 61, "*The Financial Reporting Entity*." The objective of this Statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. There was no significant impact on its financial statements as a result of this implementation.

GASB has issued Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," effective for the year ending April 30, 2014. This Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. As a result of this Statement, bond issuance costs previously capitalized had to be written off

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and, going forward, all bond issuance costs will be expensed when incurred. Specific details of the restatement are as follows:

Net position at April 30, 2012, as previously presented	\$ 34,633,461
Write-off of bond issuance costs	<u>(206,345)</u>
Net position at April 30, 2012, as restated	<u>\$ 34,427,116</u>
Net position at April 30, 2013, as previously presented	\$ 36,255,853
Write-off of bond issuance costs	<u>(180,552)</u>
Net position at April 30, 2013, as restated	<u>\$ 36,075,301</u>

Pending Pronouncements

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

GASB has issued Statement No. 67, "*Financial Reporting for Pension Plans*," effective for financial statements for periods beginning after June 15, 2013 (the Authority's April 30, 2015 financial statements), and has also issued Statement No. 68, "*Accounting and Financial Reporting for Pensions*," effective for fiscal years beginning after June 15, 2014 (the Authority's April 30, 2016 financial statements), and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," effective for fiscal years beginning after June 15, 2014 (the Authority's April 30, 2016 financial statements). These Statements revise existing guidance for the financial reports of most pension plans, and establish new financial reporting requirements for most governments that provide their employees with pension benefits.

GASB has issued Statement No. 69, "*Government Combinations and Disposals of Government Operations*," effective for fiscal years beginning after December 15, 2013 (the Authority's financial statements for the year ended April 30, 2015). GASB Statement No. 69 provides new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The effect of implementation of this statement has not yet been determined.

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GASB has issued Statement No. 70, “*Accounting and Financial Reporting for Non-exchange Financial Guarantees*,” effective for financial statements for periods beginning after June 15, 2013 (the Authority’s April 30, 2015 financial statements). This Statement specifies the information required to be disclosed by governments that extend non-exchange financial guarantees, and requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

Reclassification

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year’s presentation.

3. CASH AND INVESTMENTS

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

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

The bond trust indenture authorizes the Authority to invest in obligations of the U.S. Government and government-sponsored agencies and instrumentalities; certificates of deposits, fully insured or collateralized; certain commercial paper and repurchase agreements; and highly rated bank promissory notes, investment funds, or trusts. Throughout the years ended April 30, 2014 and 2013, the Authority invested its funds in only the above authorized investments.

For the fiscal years ended April 30, 2014 and 2013, GASB Statement No. 40, “*Deposit and Investment Risk Disclosures*,” requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk),

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interest rate risk, and foreign currency risk. The following is a description of the Authority's deposit and investment risks:

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal deposit policy for custodial credit risk. As of April 30, 2014 and 2013, respectively, \$787,378 and \$464,548 of the Authority's bank balance of \$1,247,009 and \$924,076 were exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$1,256,817 and \$898,595 as of April 30, 2014 and 2013, respectively. At April 30, 2014 and 2013, \$1,014,931 and \$671,372, respectively, of the book balances are classified as cash, \$141,886 and \$127,223, respectively, are classified as restricted cash, and \$100,000 and \$100,000, respectively, are classified as current asset investments on the statements of net position.

The Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School District Liquid Asset Fund (PSDLAF) were established as common law trusts organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, municipal authorities, and municipalities. The purpose of these funds is to enable such governmental units to pool available funds for investment in instruments. The Authority's deposits in these pooled funds are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The fair value of the Authority's position in the external investment pool is the same as the value of the pooled shares. All investments in the external investment pool that are not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania. The amounts in PLGIT at April 30, 2014 and 2013 were \$400,909 and \$401,012, respectively. The amounts in PSDLAF at April 30, 2014 and 2013 were \$184,478 and \$184,460, respectively. These investments are reflected as current asset investments on the statements of net position.

Interest Rate Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the U.S. Government Money Market Funds held by the Authority have an average maturity of less than 90 days.

Credit Risk – The Authority has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of April 30, 2014 and 2013, the Authority's investments in PLGIT and PSDLAF were rated AAA by Standard & Poor's.

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At April 30, 2014 and 2013, the Authority also held U.S. Government Money Market Funds totaling \$2,522,222 and \$3,094,135, respectively. These funds are classified as restricted investments on the statements of net position. As of April 30, 2014 and 2013, these investments were rated AAA by Standard & Poor's.

Concentration of Credit Risk – The Authority places no limit on the amount the Authority may invest in any one issuer. As of April 30, 2014 and 2013, the Authority had 79% and 82%, respectively, of its investments in U.S. Government Money Market Funds with Manufacturers and Traders Trust Company.

4. CAPITAL ASSETS

A summary of changes in capital assets are as follows:

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	Balance at May 1, 2013	Additions	Transfers/ Deletions	Balance at April 30, 2014
Capital assets, not being depreciated:				
Land and rights of way	\$ 1,460,902	\$ -	\$ -	\$ 1,460,902
Capital additions in progress	2,167,121	2,704,400	(4,386,460)	485,061
Total capital assets, not being depreciated	3,628,023	2,704,400	(4,386,460)	1,945,963
Capital assets, being depreciated:				
Plant and system	70,752,976	4,386,460	-	75,139,436
Motor vehicles	805,453	126,005	-	931,458
Office furniture and equipment	517,672	12,865	-	530,537
Tools and equipment	691,036	22,815	-	713,851
Total capital assets, being depreciated	72,767,137	4,548,145	-	77,315,282
Less accumulated depreciation for:				
Plant and system	(32,527,511)	(1,628,548)	-	(34,156,059)
Motor vehicles	(706,877)	(37,971)	-	(744,848)
Office furniture and equipment	(469,978)	(19,221)	-	(489,199)
Tools and equipment	(506,372)	(22,503)	-	(528,875)
Total accumulated depreciation	(34,210,738)	(1,708,243)	-	(35,918,981)
Total capital assets, being depreciated, net	38,556,399	2,839,902	-	41,396,301
Total capital assets, net	\$ 42,184,422	\$ 5,544,302	\$ (4,386,460)	\$ 43,342,264

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	<u>Balance at May 1, 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at April 30, 2013</u>
Capital assets, not being depreciated:				
Land and rights of way	\$ 1,460,902	\$ -	\$ -	\$ 1,460,902
Capital additions in progress	<u>571,428</u>	<u>2,644,886</u>	<u>(1,049,193)</u>	<u>2,167,121</u>
Total capital assets, not being depreciated	<u>2,032,330</u>	<u>2,644,886</u>	<u>(1,049,193)</u>	<u>3,628,023</u>
Capital assets, being depreciated:				
Plant and system	69,596,019	1,156,957	-	70,752,976
Motor vehicles	805,453	-	-	805,453
Office furniture and equipment	497,292	20,380	-	517,672
Tools and equipment	<u>664,405</u>	<u>26,631</u>	<u>-</u>	<u>691,036</u>
Total capital assets, being depreciated	<u>71,563,169</u>	<u>1,203,968</u>	<u>-</u>	<u>72,767,137</u>
Less accumulated depreciation for:				
Plant and system	(30,943,032)	(1,584,479)	-	(32,527,511)
Motor vehicles	(670,895)	(35,982)	-	(706,877)
Office furniture and equipment	(452,495)	(17,483)	-	(469,978)
Tools and equipment	<u>(484,461)</u>	<u>(21,911)</u>	<u>-</u>	<u>(506,372)</u>
Total accumulated depreciation	(32,550,883)	(1,659,855)	-	(34,210,738)
Total capital assets, being depreciated, net	<u>39,012,286</u>	<u>(455,887)</u>	<u>-</u>	<u>38,556,399</u>
Total capital assets, net	<u>\$ 41,044,616</u>	<u>\$ 2,188,999</u>	<u>\$(1,049,193)</u>	<u>\$ 42,184,422</u>

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5. LONG-TERM DEBT

The following are changes in debt:

Year Ended April 30, 2014	Beginning of Year Balance	Additions	Retirements	End of Year Balance	Due Within One Year
Revenue Obligation Note - 2006	\$ 891,210	\$ -	\$ (99,237)	\$ 791,973	\$ 103,181
PennVest Loan #2	2,426,360	-	(206,865)	2,219,495	213,662
Variable Rate Demand Bonds - 2011	7,730,000	-	(975,000)	6,755,000	1,025,000
	<u>\$ 11,047,570</u>	<u>\$ -</u>	<u>\$ (1,281,102)</u>	<u>\$ 9,766,468</u>	<u>\$ 1,341,843</u>

Year Ended April 30, 2013	Beginning of Year Balance	Additions	Retirements	End of Year Balance	Due Within One Year
Revenue Obligation Note - 2006	\$ 986,769	\$ -	\$ (95,559)	\$ 891,210	\$ 99,237
PennVest Loan #2	2,626,645	-	(200,285)	2,426,360	206,865
Variable Rate Demand Bonds - 2011	8,650,000	-	(920,000)	7,730,000	975,000
	<u>\$ 12,263,414</u>	<u>\$ -</u>	<u>\$ (1,215,844)</u>	<u>\$ 11,047,570</u>	<u>\$ 1,281,102</u>

The 1991 Bonds previously refunded the 1987 Bonds, which were issued to refund Series A of 1968 and Series B of 1976 Bonds and to provide funds for sewer system construction. A portion of the proceeds of the 1987 Bonds was deposited in an escrow fund sufficient to make required principal and interest payments on the refunded bonds. Accordingly, the liability for the refunded bonds and the assets in the escrow fund are excluded from the financial statements of the Authority. The outstanding balance of the 1987 Bonds was \$112,315 and \$164,855 at April 30, 2014 and 2013, respectively.

On April 1, 2011, the Authority issued a Variable Rate Demand Revenue Bonds, Series of 2011, in the amount of \$9,525,000 to refinance the Guaranteed Sewer Revenue Bonds, Series of 2001. The Variable Rate Demand Revenue Bonds, Series of 2011 mature on various dates with payments ranging from \$875,000 to \$1,260,000 with varying interest rates determined monthly.

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Future annual debt service requirements for the bonds are as follows:

Year	Principal	Interest	Total
2015	\$ 1,025,000	\$ 357,340	\$ 1,382,340
2016	1,085,000	303,117	1,388,117
2017	1,140,000	245,721	1,385,721
2018	1,200,000	185,415	1,385,415
2019	1,260,000	121,935	1,381,935
2020	1,045,000	55,280	1,100,280
	\$ 6,755,000	\$ 1,268,808	\$ 8,023,808

Interest payments were calculated for the Variable Rate Demand Revenue Bonds, Series of 2011 using the synthetic fixed rate of 5.29% as described in Note 12.

Under the bond trust indenture related to the 2011 Bonds, the Authority has made certain covenants, which essentially provide that rates are to be set at levels such that system revenues together with amounts available in the revenue fund are sufficient to provide funds to pay current expenses of the Authority (without consideration for depreciation) and an amount equal to 110% of debt service requirements related to the bonds. The Authority is in compliance with the aforementioned debt covenants.

In April 2002, the Authority obtained a PennVest loan in the amount of \$4,734,573 for the purpose of constructing and operating a community sewer system. The loan will be received in portions from PennVest for the sole purpose of partially financing the eligible costs of the project. Interest only on the unpaid principal will be payable in monthly installments on the first day of each calendar month, beginning with the first calendar month following a loan payment and ended on September 1, 2003. Principal and interest will be payable in monthly installments commencing on the first day of each calendar month, beginning with October 1, 2003. The loan, whose last scheduled debt maturity is May 1, 2023, bears interest at rates ranging from 1.619% to 3.237%. The Authority drew down \$4,369,410 from the PennVest loan as of April 30, 2006, which is the full amount drawn down. The balance of the loan was \$2,219,495 and \$2,426,360 at April 30, 2014 and 2013, respectively.

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The annual debt service maturities are as follows:

Fiscal Year	Revenue Obligation Note	
	Principal	Interest
2015	\$ 213,662	\$ 68,694
2016	220,682	61,674
2017	227,932	54,423
2018	235,421	46,935
2019	243,156	39,200
2020-2024	1,078,642	74,247
	\$ 2,219,495	\$ 345,173

In February 2006, the Authority obtained a Revenue Obligation Note, Series 2006, in the amount of \$1,500,000 for the purpose of constructing a maintenance garage at its Youghioghney Sewage Treatment Plant and for other related capital improvements. The Note bears interest on the unpaid principal at an annual rate of 3.9%, payable in monthly installments through February 2021.

The annual debt service maturities are as follows:

Fiscal Year	Revenue Obligation Note	
	Principal	Interest
2015	\$ 103,181	\$ 29,063
2016	107,278	24,966
2017	111,537	20,707
2018	115,966	16,278
2019	120,570	11,674
2020-2021	233,441	8,831
	\$ 791,973	\$ 111,519

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Future aggregate debt service requirements for the Authority are as follows:

	Principal	Interest	Total
2015	\$ 1,341,843	\$ 455,097	\$ 1,796,940
2016	1,412,960	389,757	1,802,717
2017	1,479,469	320,851	1,800,320
2018	1,551,387	248,628	1,800,015
2019	1,623,726	172,809	1,796,535
2020-2024	2,357,083	138,358	2,495,441
	\$ 9,766,468	\$ 1,725,500	\$ 11,491,968

In conjunction with their derivative instrument transaction described in Note 12, the Authority received an upfront cash payment. The upfront cash payment received by the Authority was considered to be a borrowing at a rate of 3.11%. As of April 30, 2014 and 2013, the borrowing had an outstanding balance of \$414,417 and \$476,285, respectively. No payments had been made on the borrowing until the swaption was exercised by the counterparty on April 1, 2011. Principal and interest payments of \$6,317 began monthly on May 1, 2011 as a component of the fixed rate payments required to be made by the Authority per their interest rate swap and will continue until the borrowing's final maturity in 2020, as summarized in the table below. Interest through April 30, 2011 was being accreted to the principal amount annually. Accreted interest on the borrowing of \$85,187 at April 30, 2011 was included in the borrowing's principal balance once the swaption was exercised and principal and interest payments began.

Year Ending April 30,	Principal	Interest	Total
2015	\$ 63,820	\$ 11,984	\$ 75,804
2016	65,834	9,970	75,804
2017	67,910	7,894	75,804
2018	70,053	5,751	75,804
2019	72,263	3,541	75,804
2020	74,537	1,262	75,799
Total	\$ 414,417	\$ 40,402	\$ 454,819

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6. PURCHASED SEWAGE TREATMENT

The Authority has a service agreement with the Western Westmoreland Municipal Authority (WWMA) whereby WWMA provides treatment of sewage drained from the Authority's Brush Creek Collection System. Payments to WWMA are based upon WWMA's current rates and the number of Equivalent Dwelling Units served by WWMA. The Authority incurred \$2,054,051 and \$1,755,857 of expense in fiscal years 2014 and 2013, respectively.

There may be additional payments by the Authority in the event that receipts and revenues from customers are insufficient to enable the WWMA to meet its obligations. No additional payments were required in fiscal years 2014 or 2013.

7. PENSION PLAN

Description of Plan

The Authority established a pension plan (Plan) for its employees by resolution effective July 1, 1980. The Plan was subsequently amended; the latest pension agreement was effective February 21, 1991. The Plan is part of the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for municipalities and authorities. The Plan operates on a calendar year basis.

All permanent, full-time employees are eligible to participate in the Plan. An employee is fully vested after five years. The normal retirement age is 60 years of age or older. Plan provisions are established by municipal ordinance with the Authority for municipal contributions required by Act 205 of the Commonwealth (the Act). The basic annual benefit shall be equal to 2% of the member's final salary multiplied by all years of credited service. Final salary shall be calculated based upon the highest three-year average salary. Early retirement is available to those members who have separated voluntarily after 20 years of credited service or who have been involuntarily terminated after eight years of credited service. Benefits will be actuarially reduced for each year or partial year thereof prior to age 60 that early retirement takes place. At retirement, a member may select a reduced joint annuitant benefit. There shall be no offset for social security benefits received. Members shall contribute 3.5% of their total compensation in a manner consistent with Board-established policy. The Authority is required to contribute the remaining amount necessary to fund the plan, using the actuarial basis specified by statute. The Authority may optionally award post-retirement benefit adjustments based on investment performance. Included in the Authority's Plan is a Deferred Retirement Option Plan (DROP) effective June 1, 2012. The

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Authority has three employees that have elected the DROP option as of the year ended April 30, 2014.

Per the latest available demographic information, January 1, 2013, employee membership data related to the Plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to, but not yet receiving, benefits	12
Active plan participants:	
Vested	18
Nonvested	2
Total	<u>32</u>

Administration and Investment

The Plan is administered by the PMRS under a trust agreement where the assets of the pension plans of the various participating municipalities are pooled for investment purposes. The PMRS Board has adopted an asset-valuation method that was first effective for the year ending December 31, 1985. This method recognizes that a portion of investment income be distributed as excess interest after required allocations for regular interest and administrative expense reserves. No excess interest was distributed to the Authority during fiscal years 2014 or 2013.

Financial Information

PMRS is separately audited and a separate audit report for PMRS is available through the Authority's administrative offices.

Contributions and Funding Policy

The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the Commonwealth of Pennsylvania allocation must be funded by the Authority (and could include employee contributions).

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For the years ended December 31, 2013 and 2012, the Authority contributed the funds necessary to meet the MMO for the Plan in the amounts of \$80,949 and \$80,192, respectively.

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the appropriate plan and funded from investment earnings.

The Authority's annual pension cost and related information for the plan is as follows:

Annual pension cost	\$ 80,949
Contributions made	80,949
Actuarial valuation date	1/1/2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	not applicable
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	5.50%
Projected salary increases	4.10%
Cost of living adjustments	3% where applicable

Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
12/31/2011	\$ 82,117	100.0%	\$ -
12/31/2012	80,192	100.0%	-
12/31/2013	80,949	100.0%	-

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The Authority’s net pension obligation at transition to GASB Statement No. 27, “*Accounting for Pensions by State and Local Governmental Employers*,” was determined to be zero and continues to be immaterial at April 30, 2014.

The Authority’s funded status and related information as of the latest actuarial valuation date, January 1, 2013, is as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
\$ 6,525,635	\$ 6,772,135	\$ (246,500)	96.36%	\$ 1,129,711	(21.82%)

The required schedule of funding progress included as required supplementary information immediately following the notes to financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

As noted above, certain pension information and calculations are based upon an actuarial valuation performed as of January 1, 2013. The next actuarial valuation will be performed as of January 1, 2015 and may result in changes that affect the funding status of the Plan.

8. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with the Internal Revenue Service Code Section 457. The deferred compensation plan, available to all employees, permits them to defer a portion of their salaries until future years. Participation in the deferred compensation plan is optional. The deferred compensation plan is not available to the employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the deferred compensation plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust solely for the benefit of the participants. Investments are managed by the deferred compensation plan’s trustee under several investment options selected by the participant.

The total assets held in the deferred compensation plan as of March 31, 2014, the most current balance available, were \$393,016. As of March 31, 2013, total assets held in the deferred compensation plan were \$345,496.

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YEARS ENDED APRIL 30, 2014 AND 2013

9. COMPARISON OF BUDGET TO ACTUAL

The following is a comparison of budgeted to actual operating revenues and expenses for the years ended April 30, 2014 and 2013:

Year ended April 30, 2014:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Sewage rentals	\$ 8,557,679	\$ 8,367,395	\$ (190,284)
New construction tap-ins and saddles	231,000	526,095	295,095
Existing development tap-ins	<u>40,000</u>	<u>59,594</u>	<u>19,594</u>
Total operating revenues	<u>8,828,679</u>	<u>8,953,084</u>	<u>124,405</u>
Operating expenses:			
Sewer system operation	2,242,860	1,971,926	270,934
Purchased sewage treatment - WWMA	2,198,545	2,054,051	144,494
Administration	<u>821,319</u>	<u>697,740</u>	<u>123,579</u>
Total operating expenses	<u>5,262,724</u>	<u>4,723,717</u>	<u>539,007</u>
Operating income, before depreciation	<u>\$ 3,565,955</u>	<u>\$ 4,229,367</u>	<u>\$ 663,412</u>

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2014 AND 2013

Year ended April 30, 2013:

	Budget	Actual	Variance
Operating revenues:			
Sewage rentals	\$ 7,526,471	\$ 7,774,948	\$ 248,477
New construction tap-ins and saddles	198,000	239,981	41,981
Existing development tap-ins	28,000	106,232	78,232
Total operating revenues	7,752,471	8,121,161	368,690
Operating expenses:			
Sewer system operation	2,245,299	2,086,848	158,451
Purchased sewage treatment - WWMA	1,685,847	1,755,857	(70,010)
Administration	787,177	723,329	63,848
Total operating expenses	4,718,323	4,566,034	152,289
Operating income, before depreciation	\$ 3,034,148	\$ 3,555,127	\$ 520,979

Existing development tap-ins and the provision for depreciation is not an element of cost considered in the setting of rates. Therefore, depreciation is not considered when establishing the operating budget. Budgeted operating revenue is estimated using the total of the equivalent dwelling units and the annual sewage rental less an allowance for uncollectible accounts.

10. CONTINGENCIES

While the Authority is party to a number of actual and possible matters of litigation, the ultimate outcome of such matters is not expected to be material to the Authority's financial statements. The Authority remains subject to the Commonwealth of Pennsylvania Department of Environmental Protection Agency (DEP) monitoring and can be mandated to take corrective actions that are not funded by DEP.

During 2005, the Department of Environmental Resources placed the Western Westmoreland Municipal Authority (WWMA) under a Corrective Action Plan for its Brush Creek Water Pollution Control Plant, and has restricted taps for that entire facility. This impacts approximately 50% of the Authority's service area.

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2014 AND 2013

WWMA is implementing its Long-Term Control Plan, which will require the Authority to locate and remove inflow and infiltration from that drainage basis. The effect of this plan on the Authority and the costs associated with this plan are unknown at this time.

11. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; and injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not significantly exceeded commercial insurance coverage for the past three years. There were no significant changes in insurance coverage from the prior year.

12. DERIVATIVE INSTRUMENT

Description of Transaction

In October 2005, the Authority entered into a swaption contract that provided the Authority an up-front payment of \$509,215. As a synthetic refunding of its 2001 Guaranteed Sewer Revenue Bonds, this payment represents the present-value, risk-adjusted savings of a refunding as of April 1, 2011, without issuing refunding bonds at October 2005. The swaption gave the counterparty the option to make the Authority enter into a pay-fixed, receive-variable interest rate swap on the first day of each month during the period commencing on, and including, May 1, 2011 and terminating on April 1, 2020.

The counterparty exercised the option on April 1, 2011. At that time, the Authority current refunded the existing 2001 Guaranteed Sewer Revenue Bonds and issued Variable Rate Demand Revenue Bonds, Series of 2011 (2011 Bonds). The intention of the swap is to effectively change the Authority's variable interest rate on the 2011 Bonds to a synthetic fixed rate of 5.29%.

Per the swap agreement, effective with the first payment on May 1, 2011 and continuing monthly thereafter, the Authority receives interest at the variable rate of 68% of 1 month USD-LIBOR-BBA (London Interbank Offered Rate) while paying a fixed rate of 5.29%. The interest payments are calculated based on a notional amount of \$9,525,000, which began reducing beginning on April 1, 2012 so that the notional amount approximates the principal outstanding on the 2011 Bonds. The Authority makes monthly net swap payments as

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2014 AND 2013

required by the terms of the contract, that is, receiving a variable rate as noted above for the term of the swap from the counterparty and making a fixed rate payment to the counterparty.

The swap would expire on April 1, 2020, consistent with the last anticipated principal payment on the 2011 Bonds.

The upfront cash payment received by the Authority at the time the swaption was entered into is considered to be a borrowing at a rate of 3.11%. As of April 30, 2014 and 2013, the borrowing had an outstanding balance of \$414,417 and \$476,285, respectively, and is disclosed in more detail in Note 5.

The Authority has the ability to early terminate the swap and to cash settle the transaction on any business day by providing at least five business days written notice to the counterparty. Evidence that the Authority has sufficient funds available to pay any amount payable to the counterparty must be provided at the time notice is given. At early termination, the Authority will be required to pay or receive a settlement amount that is comprised of the market value of the terminated transaction based on market quotations and any amounts accrued under the contract.

Accounting and Risk Disclosures

Notional Amount	4/30/2012 Market Value *	Change in Market Value	4/30/2013 Market Value *	Change in Market Value	4/30/2014 Market Value *
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Hedging derivatives, Cash flow hedges, Receive variable - pay fixed, Interest rate swap:

\$ 8,650,000	\$ (1,240,287)	\$ 230,101	\$ (1,010,186)	\$ 396,701	\$ (613,485)
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* The market value is an estimated using the zero-coupon method. This method calculates future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot rate interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

As noted in the table above, current period changes in market value for the interest rate swap that are accounted for as a cash flow hedge are recorded on the statements of net position as a change in deferred outflows. The fair market value of the outstanding interest rate swap of April 30, 2014 and 2013 are reported on the statements of net position as a swap liability.

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2014 AND 2013

During fiscal years 2014 and 2013, the Authority made payments to the counterparty of approximately \$395,000 and \$441,000, respectively, and did not receive any cash from the counterparty during that time.

Through the use of derivative instruments such as this swap, the Authority is exposed to a variety of risks, including credit risk, interest rate risk, termination risk, and basis risk.

- Credit risk is the risk that a counterparty will not fulfill its obligations. On April 30, 2014, the swap counterparty is rated A by Standard & Poor's, a nationally recognized statistical rating organization. If the counterparty failed to perform according to the terms of the swap agreement, there is some risk of loss to the Authority, up to the fair market value of the swap. Currently, the interest rate swap is a liability to the Authority and as such there would be no impact to the Authority in the event that the counterparty defaults.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or the Authority's cash flows. The interest rate swap is highly sensitive to changes in interest rates; changes in the variable rate will have a material effect on the interest rate swap's fair market value.
- Termination risk is the risk that a derivative's unscheduled end will affect the Authority's asset/liability strategy or will present the Authority with potentially significant unscheduled termination payments to the counterparty. The counterparty to the transaction does not have the ability to voluntarily terminate the swap; however, the Authority is exposed to termination risk in the event that the counterparty defaults.
- Basis risk is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instrument are based on different indexes. Under the terms of the interest rate swap transactions, the Authority is subject to basis risk as the interest index on the variable rate arm of the swap is based on a percentage of one-month USD-LIBOR-BBA and the variable interest rate on the 2011 Bonds is based on a tax-exempt index established weekly per the terms of the bond indenture. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the Authority's calculated payments, and as a result, cost savings or synthetic interest rates may not be realized.

**Required Supplementary
Information**

**NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY**

SCHEDULE OF FUNDING PROGRESS
PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
1/1/2013	\$ 6,525,635	\$ 6,772,135	\$ (246,500)	96.36%	\$ 1,129,711	(21.82%)
1/1/2011	5,766,660	5,582,700	183,960	103.30%	1,274,961	14.43%
1/1/2009	5,043,981	4,883,490	160,491	103.29%	1,199,116	13.38%

See accompanying note to supplementary pension schedules.

**NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY**

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER

<u>Calendar Year</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2008	\$ 125,104	100%
2009	107,652	100%
2010	106,271	100%
2011	82,117	100%
2012	80,192	100%
2013	80,949	100%

See accompanying note to supplementary pension schedules.

**NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY**

NOTE TO SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED APRIL 30, 2014

The information presented in the required supplementary pension schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	n/a
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	5.50%
Projected salary increases	4.10%
Cost of living adjustments	3% where applicable

n/a = not applicable

Supplementary Information

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

ANALYSIS OF OPERATING REVENUES AND EXPENSES

YEARS ENDED APRIL 30, 2014 AND 2013

	2014	2013
Operating Revenues:		
Sewage service	\$ 8,313,802	\$ 7,721,100
Late payment penalties	69,184	68,573
Discounts	(15,591)	(14,725)
New construction tap-ins and saddles	526,095	239,981
Existing development tap-ins	59,594	106,232
	<u>\$ 8,953,084</u>	<u>\$ 8,121,161</u>
Operating Expenses:		
Sewer system operation:		
Personnel	\$ 1,365,098	\$ 1,407,771
Electric, gas, and water	192,158	184,185
Chemicals	8,007	8,209
Telephone	4,346	5,206
Equipment rental, repairs, and maintenance	87,856	101,220
Insurance	109,181	104,244
Operating supplies	5,573	6,190
Lab supplies	13,284	15,242
Vehicle operation	46,862	50,285
Small tools and equipment	1,844	3,174
Sludge disposal	45,523	52,756
System maintenance	54,775	105,640
Other	37,419	42,726
	<u>1,971,926</u>	<u>2,086,848</u>
Total sewer system operation	<u>1,971,926</u>	<u>2,086,848</u>
Purchased sewage treatment - WWMA	<u>2,054,051</u>	<u>1,755,857</u>
Administration:		
Personnel	455,581	481,924
Office rental	21,408	21,408
Office supplies	8,379	8,240
Postage	3,842	3,937
Billing and collection	24,212	25,905
Telephone	2,093	1,966
Equipment rental, repair, and maintenance	5,929	6,501
Professional fees	153,354	140,325
Board member expenses	6,653	6,708
Other	16,289	26,415
	<u>697,740</u>	<u>723,329</u>
Total administration	<u>697,740</u>	<u>723,329</u>
Depreciation:		
Plant and system	1,628,549	1,584,479
Motor vehicles	37,971	35,982
Office furniture and equipment	19,220	17,483
Tools and equipment	22,503	21,911
	<u>1,708,243</u>	<u>1,659,855</u>
Total depreciation	<u>1,708,243</u>	<u>1,659,855</u>
Total operating expenses	<u>\$ 6,431,960</u>	<u>\$ 6,225,889</u>

**NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY**

SCHEDULES OF BALANCES - TRUSTEE CONTROLLED ACCOUNTS

YEARS ENDED APRIL 30, 2014 AND 2013

	<u>Debt Service</u>	<u>Capital Reserve</u>	<u>Insured Swap Payment</u>	<u>Total</u>
Temporary investments at April 30, 2014	<u>\$ 171,777</u>	<u>\$ 2,350,441</u>	<u>\$ 4</u>	<u>\$ 2,522,222</u>
	<u>Debt Service</u>	<u>Capital Reserve</u>	<u>Insured Swap Payment</u>	<u>Total</u>
Temporary investments at April 30, 2013	<u>\$ 165,114</u>	<u>\$ 2,896,912</u>	<u>\$ 32,109</u>	<u>\$ 3,094,135</u>