

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 3 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS: (Continued)

The Authority's restricted assets as of December 31, 2011 and 2010 are comprised of the following:

	<u>12/31/2011</u>	<u>12/31/2010</u>
Construction Funds	\$ 24,237,047	\$ 27,937,188
Clearing Fund	-	41,084
Debt Service Funds	5,445,495	3,435,456
	<u>\$ 29,682,542</u>	<u>\$ 31,413,728</u>

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT

The following comprises the changes to the Authority's property, plant, and equipment account during 2011 and 2010:

	<u>Balance 1/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2011</u>
Land	\$ 56,332	\$ 4,800	\$ -	\$ 61,132
Infrastructure	33,159,918	-	-	33,159,918
Buildings	9,437,354	336,000	-	9,773,354
Plant Machinery and Equipment	7,838,347	32,913	(12,202)	7,859,058
Office Machinery and Equipment	86,566	17,363	-	103,929
Vehicles and Equipment	885,670	26,200	-	911,870
	<u>\$ 51,464,187</u>	<u>\$ 417,276</u>	<u>\$ (12,202)</u>	<u>\$ 51,869,261</u>
Less: Accumulated Depreciation	<u>(12,497,528)</u>	<u>(1,302,372)</u>	<u>12,202</u>	<u>(13,787,698)</u>
	<u>\$ 38,966,659</u>	<u>\$ (885,096)</u>	<u>\$ -</u>	<u>\$ 38,081,563</u>
Construction in Progress	2,807,212	15,233,747	-	18,040,959
	<u>\$ 41,773,871</u>	<u>\$ 14,348,651</u>	<u>\$ -</u>	<u>\$ 56,122,522</u>

	<u>Balance 1/1/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2010</u>
Land	\$ 56,332	\$ -	\$ -	\$ 56,332
Infrastructure	32,820,000	339,918	-	33,159,918
Buildings	5,637,354	3,800,000	-	9,437,354
Plant Machinery and Equipment	7,780,484	59,738	(1,875)	7,838,347
Office Machinery and Equipment	73,609	12,957	-	86,566
Vehicles and Equipment	514,479	371,191	-	885,670
	<u>\$ 46,882,258</u>	<u>\$ 4,583,804</u>	<u>\$ (1,875)</u>	<u>\$ 51,464,187</u>
Less: Accumulated Depreciation	<u>(11,334,889)</u>	<u>(1,163,702)</u>	<u>1,063</u>	<u>(12,497,528)</u>
	<u>\$ 35,547,369</u>	<u>\$ 3,420,102</u>	<u>\$ (812)</u>	<u>\$ 38,966,659</u>
Construction in Progress	2,727,801	379,983	(300,572)	2,807,212
	<u>\$ 38,275,170</u>	<u>\$ 3,800,085</u>	<u>\$ (301,384)</u>	<u>\$ 41,773,871</u>

Fixed asset balances and related accumulated depreciation have been re-stated in 2010 to reflect changes in the fixed asset appraisal report (Note 8).

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 5 – LONG-TERM DEBT

SEWER REVENUE BONDS – SERIES OF 2006

In October of 2006, the Authority issued Sewer Revenue Bonds - Series of 2006 under the terms of a Trust Indenture dated October 1, 2006, by and between the Authority and M&T Investment Group (formerly through First Commonwealth Bank), as Trustee, in the amount of \$6,140,000. The purpose of the bond issue was for 1) the design and construction of capital projects acquisition facilities required for the proper operation and maintenance of the Authority wastewater conveyance and treatment system, 2) refund an existing bank loan, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.6 and 4.5%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036.

SEWER REVENUE BONDS – SERIES OF 2008

In October of 2008, the Authority issued Sewer Revenue Bonds - Series of 2008 under the terms of a First Supplemental Trust Indenture dated October 2, 2008, by and between the Authority and the Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition facilities required for the proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding of a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 2.5 and 5.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

SEWER REVENUE BONDS – SERIES OF 2009

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 under the terms of a Trust Indenture dated December 1, 2009, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

SEWER REVENUE BONDS – SERIES OF 2010

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 2.0 and 5.16%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2040.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 5 – LONG-TERM DEBT (Continued)

SEWER REVENUE BONDS – SERIES OF 2011

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.25 and 5.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2030.

The following summarizes the Authority's bond debt service obligations of the Authority as of December 31, 2011:

<u>Year</u>	<u>2006 Principal</u>	<u>2008 Principal</u>	<u>2009 Principal</u>	<u>2010 Principal</u>
2012	\$ 135,000	\$ 175,000	\$ -	\$ 5,000
2013	140,000	180,000	165,000	435,000
2014	145,000	190,000	170,000	445,000
2015	150,000	195,000	175,000	460,000
2016	155,000	200,000	185,000	475,000
2017-2021	870,000	1,145,000	1,050,000	2,640,000
2022-2026	1,075,000	1,455,000	1,335,000	3,295,000
2027-2031	1,330,000	1,880,000	1,725,000	4,250,000
2032-2036	1,650,000	2,435,000	2,290,000	5,575,000
2037-2041	-	1,805,000	2,905,000	7,420,000
	<u>\$ 5,650,000</u>	<u>\$ 9,660,000</u>	<u>\$ 10,000,000</u>	<u>\$ 25,000,000</u>

<u>Year</u>	<u>2011 Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,010,000	\$ 3,476,838	\$ 4,801,838
2013	1,020,000	3,618,457	5,558,457
2014	1,040,000	3,579,168	5,569,168
2015	1,060,000	3,361,127	5,401,127
2016	1,085,000	3,306,641	5,406,641
2017-2021	5,965,000	15,407,602	27,077,602
2022-2026	7,315,000	12,677,285	27,152,285
2027-2031	7,220,000	8,825,901	25,230,901
2032-2036	-	5,359,387	17,309,387
2037-2041	-	1,814,674	13,944,674
	<u>\$ 25,715,000</u>	<u>\$ 61,427,080</u>	<u>\$ 137,452,080</u>

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 5 – LONG-TERM DEBT (Continued)

DEFERRED FINANCING COSTS AND BOND PREMIUMS

In connection with the Authority's currently outstanding bond issues, the Authority paid approximately \$1,952,850 in bond issuance costs. These costs are being amortized on a straight-line basis over the life of the bond issues. The unamortized amount of bond issuance costs at December 31, 2011 and 2010 totaling \$1,798,478 and \$1,284,433 respectively, is reflected in Exhibit A as part of other assets. Amortization expense was \$63,679 and \$30,526 for 2011 and 2010 respectively. In addition, the bond discounts in connection with these bond issues was \$1,052,895. This amount is being amortized on a straight-line basis over the life of the bond issues and is charged as a component of interest expense in the statement of revenues, expenses and changes in net assets. The unamortized amount of bond discount at December 31, 2011 and 2010 totaling \$911,873 and \$965,486 respectively, is reflected in Exhibit A as a reduction in long-term liabilities. The amount of discount charged to interest expense was \$53,613 and \$37,631 for 2011 and 2010 respectively. Lastly, the bond premium in connection with the Series of 2011 Sewer Revenue Bonds was \$816,328. This amount is being accreted on a straight-line basis over the life of the bond issue and is credited as a component of interest expense in the statement of revenues, expenses and changes in net assets. The un-accreted amount of bond premium at December 31, 2011 was \$802,007, and is reflected in Exhibit A as an addition to long-term liabilities. The amount of premium credited to interest expense was \$14,321 for 2011.

SEWER REVENUE NOTE – SERIES OF 2011

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Ban in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 15). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. The Note is scheduled to mature on February 2, 2014. As of December 31, 2011, the outstanding balance on this Note obligation is \$5,000,000.

CAPITAL LEASE – CITY OF MCKEESPORT

In 1997, the Authority entered into a Cooperation Agreement with the City of McKeesport to finance \$3.5 million in capital improvements. Under this Cooperation Agreement, the Authority leases the improvements from the City, and the lease payments made by the Authority to the City are used to pay the debt service on bonds issued by the City to finance the project. The Cooperation Agreement calls for the Authority to make quarterly payments of \$86,000 to the City during the term of the City's bond issue. The lease was paid in full from the proceeds of the Sewer Revenue Bonds – Series of 2011.

CAPITAL LEASE – CITY OF MCKEESPORT SANITARY COLLECTION SYSTEM

Effective January 1, 2009, the Authority entered into a lease purchase agreement with the City of McKeesport for the purchase of the City's sanitary collection system for \$30,000,000. The terms of the agreement call for the monthly payment of \$163,614.69 (principal and interest) at the annual rate of 4% for a period of 240 months. The Authority made an advance payment against this debt obligation of \$1,750,000 in August of 2010. The lease was paid in full from the proceeds of the Sewer Revenue Bonds – Series of 2011.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6 – LEASE RENTAL EXPENSE

On October 17, 2008, the Authority entered into a lease purchase agreement with the City of McKeesport, effective January 1, 2009, for the purchase of the City's sanitary collection system (Note 5). In connection with that agreement, the Authority agreed to also pay, on a monthly basis, the outstanding balance due on two (2) loans the City has with the Pennsylvania Infrastructure Investment Authority (PENNVEST) related to improvements made to the collection system. The current monthly payments total \$25,964. During the calendar years 2011 and 2010, the Authority reimbursed the City \$ 309,129 and \$303,689 respectively for these PENNVEST loans. The remaining amounts due on these loans, per amortization schedules received from the City, total approximately \$4,193,658 at December 31, 2011. The following represents the minimum lease rental payments remaining on this obligation as of December 31, 2011

<u>Year</u>	<u>AMOUNT</u>
2012	\$ 311,570
2013	311,961
2014	312,040
2015	312,040
2016	312,040
2017-2021	1,560,198
2022-2026	1,435,737
2027-2028	115,124
	<u>\$ 4,670,710</u>

NOTE 7 – ACCUMULATED COMPENSATED ABENCES

In accordance with the terms of the collective bargaining agreement between the Authority and the Utility Workers Union of America, AFL-CIO, all regular full-time employees are entitled to receive payment for the value of all unused vacation days upon separation of service from the Authority at the employee's regular daily rate. This practice also applies to administrative personnel not covered under the terms of the bargaining agreement. As of December 31, 2011 and 2010, the value of accumulated compensated absences totaled \$116,680 and \$103,392 respectively.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

The prior period adjustment of <\$8,133> and \$24,164 to the January 1, 2011 and 2010 net assets respectively of the Authority represents adjustments to the Authority's prior year fixed asset and accumulated depreciation totals based on updated appraisal information.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 9 – TRANSACTIONS WITH THE CITY OF MCKEESPORT

The Authority entered into an agreement with the City of McKeesport dated December 29, 1949, as amended June 2, 1992, to provide sewage treatment services to the City and to pay the City \$30,000 annually for the maintenance cost of the sewers located within the City. In addition, during 2008, the Authority was responsible for paying the City a quarterly administrative fee, based on water usage, for the City to bill and collect certain fees from its customers within the City. Effective February 1, 2009, the Authority began billing and collecting these fees directly to the customers within the City of McKeesport. In addition, the Authority paid the City of McKeesport \$600,000 for the estimated value of collectible delinquent sewage fees outstanding. This amount, less delinquent collections in 2011 and 2010, is reflected in the statement of net assets as 'Delinquent Sewage Service Receivable – City of McKeesport' totaling \$207,877 and \$241,161 respectively. Approximately 81% of the Authority's sewage treatment services revenue for 2011 was generated from the City of McKeesport.

NOTE 10 - AUTHORITY PENSION PLAN

The Authority established a single-employer defined benefit pension plan on March 1, 1964, as amended, to provide retirement benefits to eligible employees of the Authority.

Plan membership as of January 1, 2011 was comprised of:

Active employees	37
Retirees and beneficiaries currently receiving benefits	16
Terminated employees entitled to benefits but not yet receiving them	1
Total	54

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

- PARTICIPANTS** - All employees of the Authority who customarily work at least 20 hours per week and at least 5 months per year.
- ELIGIBILITY** - All participants are eligible for retirement benefits provided that they have attained the age of 62 and have completed 10 years of continuous service. Participants are eligible for early retirement at age 55 with 20 years of continuous service.
- VESTING** - Vesting occurs on a sliding scale with full vesting occurring after 20 years of service.
- BENEFITS** - 50% of Average Compensation multiplied by participants short service percentage (effective 1/1/2008).
- DEATH BENEFIT** - The plan provides for beneficiary benefits named by the participant under options as detailed in the retirement plan.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 10 - AUTHORITY PENSION PLAN (Continued)

FUNDING - Member contributions equal 2.5% (3% for 2011) of compensation. This rate increases to 2.75% if the Authority's Minimum Municipal Obligation (MMO) exceeds \$65,000 and 3% if the MMO exceeds \$90,000. Members contributed \$61,877 and \$44,536 to the plan during 2011 and 2010 respectively. Pension expense of the Authority totaled \$318,960 for 2011 and \$40,052 for 2010.

The investment income of the plan was used to fund administrative costs. There are no long-term contracts for contributions as of December 31, 2011 and 2010. In addition, there are no assets legally reserved for purposes other than the payment of plan member benefits. The plan does not issue a stand-alone report.

The significant assumptions employed in the most recent actuarial valuation (dated 1/1/2011) to determine funding included the use of an 8% interest rate and a salary projection of 4.5%. The pension plan uses the Entry Age Normal Actuarial Cost Method. Net assets available for benefits as of December 31, 2010 were \$3,822,068. A schedule of the Authority's annual required contributions (ARC) to the plan is as follows:

<u>Year</u>	<u>ARC</u>	<u>% Contributed</u>
2011	\$ 318,960	100%
2010	40,052	100%
2009	17,202	100%
2008	7,166	100%
2007	83,326	100%
2006	98,910	100%
2005	92,823	100%
2004	79,697	100%
2003	49,541	100%
2002	48,792	100%

Historical trend information, designed to provide information about the plan's progress made accumulating sufficient assets to pay benefits when due, is as follows:

<u>(A)</u>	<u>(B)</u>	<u>(B-A)</u> <u>(UAAL)</u>	<u>(A/B)</u>	<u>(C)</u>	<u>(B-A)/C</u>	
<u>ACTUARIAL</u> <u>VALUATION</u> <u>DATE</u>	<u>ACTUARIAL</u> <u>VALUE OF</u> <u>ASSETS</u>	<u>ACTUARIAL</u> <u>ACCRUED</u> <u>LIABILITY</u>	<u>UNFUNDED</u> <u>ACTUARIAL</u> <u>ACCRUED</u> <u>LIABILITY</u>	<u>FUNDED</u> <u>RATIO</u>	<u>COVERED</u> <u>PAYROLL</u>	<u>UAAL AS A</u> <u>% OF</u> <u>COVERED</u> <u>PAYROLL</u>
1/1/01	\$ 3,725,113	\$ 3,573,948	\$ (151,165)	104%	\$ 872,199	-17%
1/1/03	3,877,556	3,780,883	(96,673)	103%	796,600	-12%
1/1/05	4,264,511	4,049,779	(214,732)	105%	1,065,402	-20%
1/1/07	5,105,407	4,262,176	(843,231)	120%	1,063,399	-79%
1/1/09	4,528,958	5,065,447	536,489	89%	1,312,812	41%
1/1/11	4,331,884	5,578,758	1,246,874	78%	1,804,894	69%

Additional trend information regarding net pension obligations (NPO) is available from the Authority's actuary.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – POST EMPLOYMENT RETIREMENT BENEFIT OTHER THAN PENSION

In accordance with the terms of the collective bargaining agreement between the Authority and the Utility Workers Union of America, AFL-CIO, the Authority will purchase hospitalization coverage and pay the premium cost at any one time for each and every retired union employee between the ages of 62 and 65, subject to the same deductibles that apply for regular employees. As of December 31, 2011 and 2010, two union retirees were receiving post-retirement health care benefits from the Authority. The Authority finances these benefits on a pay-as-you-go basis. Amounts paid for these benefits for the years ended December 31, 2011 and 2010 were deemed immaterial.

NOTE 12 - RISK MANAGEMENT

The 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. The risk of loss retained by the Authority is limited to deductibles under each of the policies which can range between \$2,500 and \$10,000 per item.

For its workers compensation insurance coverage, the Authority participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), which is a public entity risk pool comprised of approximately 200 governmental organizations. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals from the Pennsylvania Department of Labor and Industry. All Trust participants may be subject to a supplemental assessment/dividend based on overall experience of the participants. Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers Compensation Act and Occupational Disease Act of each and every participant of the Trust.

The Trust purchases excess insurance coverage within statutory limits. The retention for this coverage is \$750,000 per occurrence. Political subdivisions joining the Trust must remain members for a minimum of four years. Members may withdraw from the Trust after that time by giving ninety days notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdrawal, the participant is responsible for their share of assessments but has no claim on any assets of the Trust.

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES

LEGAL MATTERS

The Authority, on occasion, can be party to various legal actions arising from normal business operations. In 2011 the Clean Water Action and Three Rivers Waterkeeper filed a law suit in the United States District Court for the Western District of Pennsylvania, Civil Action No. 2:11-cv-00940-NBF, against the Authority under section 505 of the Clean Water Act, 33 U.S.C. § 1365, relating to oil and gas wastewaters allege to have been discharged by the Authority. Upon a settlement agreement signed in 2012, the plaintiffs voluntarily dismissed the suit without prejudice. The entry into the settlement agreement was not considered as an admission of any liability by the Authority and the payment of its legal fees was the sole financial cost borne by the Authority.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

PENNSYLVANIA SEWAGE FACILITIES ACT (ACT 537)

Act 537 requires municipalities in Pennsylvania to develop and implement official sewage plans that address existing sewage disposal needs, account for future land development and provide for future sewage disposal needs. During 2009 and 2010, the Authority worked with the PA Department of Environmental Protection to develop its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. In 2011 fifteen separate contracts were awarded for construction projects related to these Plans with work expected to be completed by late summer of 2013. These Plans will require significant new treatment processes, pumping stations and interceptor lines with an associated capital cost of approximately \$54 million. To finance the project, the Authority has chosen to issue a series of bonds (see Note 5) at a rate of one per year, thereby enabling the Authority to step the necessary sewage rate increases over the next four to five years as opposed to a significant rate increase in any one year. In 2011 Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$18,412,500 and an additional amount of \$18,412,500 in the form of a 30 year loan at 1% interest. The award was issued only for Contract 2010-1 and 2010-2 which covers the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. All unused funds will be retained by PENNVEST. The other 13 contracts will be financed by the previously mentioned bond issues.

U.S. ARMY CORPS OF ENGINEERS (COE)

The U.S. Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result, the federal government is funding the relocation of most of the CSO structures. Construction for Phase 1 of the project was completed in 2007. Phase II began in the second half of 2009 and was completed in the first half of 2011. The Evans Avenue Overflow Line is the only remaining line that needs to be raised, however, the COE do not have any funds allocated for this line at this time. The Authority now has new outfall structures that will greatly reduce the amount of river water that flows back through the pipes and into the sewer lines. This, in return, will reduce the costs associated with treating unnecessary water.

NOTE 14 – EXISTING GASB PRONOUNCEMENTS

In June of 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, 'Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions'. This statement provides the accounting and reporting requirements for benefit plans, as well as, requires that public sector employers accrue the cost of any postretirement healthcare or similar benefits (OPEB) they may offer to employees. The Authority currently recognizes the costs of post-employment benefits on a pay-as-you-go basis (Note 11). GASB Statement No. 45 stipulates that governments account for and report the annual cost of OPEB, and the outstanding obligations and commitments related to OPEB, in the same manner as they currently do for pensions. This change to the accrued retiree healthcare provision, if any, may require the performance of an actuarial valuation. Management is aware, based on the new language that was changed in the collective bargaining agreement in 2011 that an actuarial valuation needs to be conducted to determine if the amount of the Authority's net OPEB obligation is material to the financial statements. The accompanying financial statements contain no provision for this net pension obligation.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
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NOTE 14 – EXISTING GASB PRONOUNCEMENTS (Continued)

In addition, the GASB issued Statement No. 42, 'Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries' which is effective for periods beginning after December 15, 2005. In connection with the approved Act 537 plan (Note 13), the Authority is evaluating whether significant impairments to its capital assets will occur and the potential impairment loss that would be required to be recognized in the financial statements. The Authority has not as yet determined the amount of any such loss, and accordingly no provision for an impairment loss is provided for in the accompanying financial statements.

NOTE 15 – SUBSEQUENT EVENTS

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036.

As mentioned in Note 13, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$18,412,500 and an additional amount of \$18,412,500 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority began drawing down funds from PENNVEST for this project in early 2012.

Management has determined that there are no additional events subsequent to December 31, 2011 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.

***SUPPLEMENTAL
SCHEDULE***

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
STATEMENT OF DETAIL OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31,

	2011	2010
<u>PERSONNEL COSTS</u>		
Plant Salaries	\$ 1,816,463	\$ 1,614,571
Administrative Salaries	340,647	264,830
Payroll Taxes	164,586	142,918
Pension	318,960	40,052
Employee Benefits	436,305	342,208
TOTAL PERSONNEL	\$ 3,076,961	\$ 2,404,579
<u>PROFESSIONAL SERVICES</u>		
Engineering (Net of COE Reimbursements)	\$ 115,141	\$ 88,983
Audit	6,302	6,000
Legal	76,707	28,560
Accounting	4,800	4,800
Pension Services	18,012	24,023
Oxford Solutions/Delta Development	27,000	51,594
Payroll Services	5,788	5,607
TOTAL PROFESSIONAL SERVICES	\$ 253,750	\$ 209,567
<u>SEWAGE PLANT COSTS</u>		
Utilities	\$ 442,217	\$ 441,201
Repair and Maintenance	283,939	189,717
Lease Rental Expense	309,129	303,689
Chemicals	44,633	52,291
Lab Supplies and Analysis	76,112	59,674
Safety Program	13,296	15,895
Vehicle Expense	76,954	82,162
Sludge Hauling	251,624	292,305
Sewer Rental	-	25,856
Computers	23,911	21,929
Uniforms	9,227	7,337
CSO Study	45,819	44,985
Duquesne/Dravosburg Expenses	233,007	-
Miscellaneous	7,579	9,196
TOTAL SEWAGE PLANT COSTS	\$ 1,817,447	\$ 1,546,237
<u>OTHER GENERAL AND ADMINISTRATIVE</u>		
Insurance	\$ 108,470	\$ 97,216
Office Supplies	13,987	13,745
Telephone	30,479	29,217
Billing and Collecting	56,690	37,165
Travel and Education	25,282	28,243
Advertising	1,767	1,973
Bond and Asset Management Fees	75,967	31,447
Miscellaneous	47,044	38,528
TOTAL OTHER GENERAL AND ADMINISTRATIVE	\$ 359,686	\$ 277,534
<u>DEPRECIATION</u>	\$ 1,302,372	\$ 1,163,702
TOTAL OPERATING EXPENSES	\$ 6,810,216	\$ 5,601,619

The accompanying notes are an integral part of these financial statements

**The City of McKeesport, Pennsylvania
And
The Municipal Authority of the City McKeesport**

**Appraisal Work Papers
As of September 2016**

**Income Approach
Financials 2012**

**AUS Consultants
Suite 201
8555 West Forest Home Avenue
Greenfield, Wisconsin 53228
Office Telephone: 414-529-5755
J. Weinert's Cell: 414-698-8371
J. Weinert's E-Mail: weinertj@auswest.net**

2012 LARGEST CUSTOMERS

Customer	Consumption	2012 Annual Revenues	% of Total
UPMC Health System #11	29,359	\$310,556.45	2.91%
McKeesport Housing Auth (23-41 Crawford Village)	9,205	97,229.75	0.91%
Dravosburg Housing Auth (250 Scott Drive)	10,555	84,464.00	0.79%
Midtown Plaza Apts./7105	7,145	76,479.55	0.72%
McKeesport Housing Auth (1-14 Harrison Village)	6,962	75,672.10	0.71%
U.S. Steel	6,336	66,891.60	0.63%
Guy Deluca (Kane Hospital)	4,061	43,264.75	0.41%
McKeesport Housing Auth (64 Crawford Village)	3,777	40,268.55	0.38%
McKeesport Housing Auth (6 th St & Huey St)	3,019	32,950.25	0.31%
McKeesport Area High School	2,824	30,893.00	0.29%
TOTAL		\$858,670.00	8.08%

Source: Authority Officials

SEWER SYSTEM RATES

Sewage Service Rates Per Quarter

Size Charge/1,000 Consumed Gallons allowed for min.

2007	1,000	\$3.16
2008	1,000	\$3.70
2009	1,000	\$4.44
2010	1,000	\$5.30
2011	1,000	\$6.10
2012	1,000	\$6.10
7/1/2013	1,000	\$7.85*

* Rate approved at 10-31-12 Authority Board Meeting

Trends in Customer Breakdown – Sewer System

Year

Historical Number of Customers

2001	19,987*
2002	19,987*
2003	19,987*
2004	19,142*
2005	19,070*
2006	19,180*
2007	19,225*
2008	19,225*
2009	19,225*
2010	18,985~
2011	18,985~
2012	21,556~

* Number provided by the communities in their annual waste load management report

~Number provided by Service Community billing departments

Source: Authority Officials

**THE MUNICIPAL AUTHORITY OF
THE CITY OF MCKEESPORT**

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012



**THE MUNICIPAL AUTHORITY OF  
THE CITY OF MCKEESPORT**  
MCKEESPORT, PENNSYLVANIA

FINANCIAL STATEMENTS

WITH REPORT BY  
CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEAR ENDED  
DECEMBER 31, 2012**

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**MCKEESPORT, PENNSYLVANIA**

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# **Mark C. Turnley**

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*Certified Public Accountant*

293 Pinney Street  
Rochester, Pennsylvania 15074  
(724) 371-0887  
FAX (724) 709-8596

**To the Board of Directors  
Municipal Authority of the City of McKeesport**

## **Independent Auditor's Report**

### **Report on Financial Statements**

I have audited the accompanying financial statements of the Municipal Authority of the City of McKeesport as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Municipal Authority of the City of McKeesport'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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audits 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 Municipal Authority of the City of McKeesport as of December 31, 2012 and 2011, 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 iii-xv 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 Municipal Authority of the City of McKeesport's basic financial statements. The supplementary information (statement of detail operating expenses) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information (statement of detail operating expenses) 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 (statement of detail operating expenses) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Mark C. Turnley, CPA

September 4, 2013  
Rochester, Pennsylvania

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

This section of the Authority's annual financial report represents our discussion and analysis of the Authority's financial performance during the years ended December 31, 2012 and 2011. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. We encourage readers to consider the information presented here in conjunction with the information provided in the Authority's financial statements.

### **OPERATING AGREEMENTS**

The Authority owns and operates three wastewater treatment facilities pursuant to Agreements with each of the twelve communities it serves. The Authority has Agreements to provide wastewater treatment services with the City of McKeesport, the City of Duquesne, the Borough of Liberty, the Borough of Port Vue, the Borough of East McKeesport, the Township of Elizabeth, the Borough of Glassport, the Borough of White Oak, the Borough of Versailles, the Borough of Lincoln, the Borough of Dravosburg, and the Township of North Versailles. The Authority's Board of Directors establishes rates which are designed to recover the cost of providing services. The rates are based upon the gallons of water used by the communities. The Authority bills the municipalities on a quarterly basis for services provided to the communities' residents at the established rate. The municipalities are responsible for setting a rate for customers within their municipalities and for billing and collecting from those customers. The Authority began conducting billing services for Versailles Borough in March of 2009 in addition to the systems that it owns; McKeesport, Duquesne & Dravosburg.

The City of McKeesport sold its Collection System to the Authority effective January 1, 2009 under a lease purchase agreement. Since that date Authority personnel have performed routine maintenance and repairs to the system.

On November 8, 2010 the City of Duquesne sold its wastewater treatment plant and collection system to the Authority for \$3.8 million. Under the terms of the agreement the City of Duquesne used the vast portion of the funds to pay off the balance of the sewage plant's \$3.2 million bond. The rate payers from the City of Duquesne will continue to pay all expenses and debt service incurred by the system. The Authority will continue to use the revenue generated by the Duquesne System to pay for its expenses, thus keeping the finances separate from the rest of the MACM system. As part of the purchase agreement rates will be frozen through 2012. A combined sewer overflow (CSO) long term control plan will be developed over the next three or four years. Once the plan has been approved by the PA DEP, a new permit will be issued to the facility.

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

### **OPERATING AGREEMENTS (Continued)**

In January of 2011 the Authority purchased the Dravosburg Wastewater Treatment Facility along with its corresponding collection system from the Borough of Dravosburg for \$330,000. As with the Duquesne system, the ratepayers of Dravosburg will continue to pay all expenses and debt service incurred by the system. The CSO Long Term Control Plan will be joined with the Duquesne Plan to develop a joint plan for both systems.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include only those of the Authority which is a component unit of the City of McKeesport, Pennsylvania. The financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. They are designed to provide a broad overview of the Authority's finances, in a manner similar to a private-sector business. All of the Authority's activities are reported in the statements except for activities associated with the pension fund because those funds are not available to support the Authority's own programs.

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference of the two reported as Net Position. Net Position is reported as one of three categories: net investment in capital assets; restricted; or unrestricted.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's Net Position changed during the year. All of the changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected rates and earned but unused vacation leave).

These two financial statements report the Authority's Net Position and the changes in the Net Position. Net Position, which represents the difference between assets and liabilities, are one measure of the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's Net Position may serve as a useful indicator of whether its financial position is improving or deteriorating.

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

### OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Notes to the financial statements provide additional information that is essential to a full understanding of the information proved in these financial statements. The financial statements and accompanying notes can be found in the financial section of this report.

### FINANCIAL HIGHLIGHTS

In 2012, the Authority maintained the 2010 rate of \$6.10/1000 gallons consumed. In order to balance the budget without raising rates the Authority subsidized the revenue by transferring \$457,000 from savings. The decision to transfer funds from savings was made years ago as part of the Authority's multi-year budget plan.

Bids for the Act 537 Plan Expansion Project were opened on March 7, 2011 and fifteen (15) contracts were awarded on May 26, 2011. Construction is expected to be completed by the end of calendar year 2013.

The Authority was awarded PennVest funding on April 20, 2011. The funding consisted of \$17,239,375 in the form of a grant and an equal amount in the form of a one (1.0) percent thirty (30) year loan. These funds are to apply only to the two contracts pertaining to the construction relating to the upgrade of the wastewater treatment facility itself. It cannot be used for the upgrades to the pump stations or lines. The cost of these other contracts not covered by Pennvest funds will be funded by the bond revenues.

The Tapping Fee (Capacity fee) remained unchanged in 2012 at a rate of \$1,750 per Equivalent Dwelling Unit ("EDU"). An EDU, equivalent dwelling unit, is the average amount of wastewater that each household in the service area discharges each day. The Authority calculates an EDU to be 236 gallons per day. During 2012 there were seventeen (17) new commercial taps purchased within the Authority's service area. The balance of cash accumulated from tapping fees (The Tapping Fee Account), reserved by the Board for capital projects, at December 31, 2012 was \$784,104.22.

On December 31, 2012, total assets were \$112,864,427 and total liabilities were \$96,667,771 yielding a net position of \$16,196,656. This resulted in an increase in the total Net Position of \$10,356,763 over last year's totals.

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

### **FINANCIAL HIGHLIGHTS (Continued)**

For the year 2012, 3.681 billion gallons of wastewater were treated at the wastewater facility. Approximately 1.186 billion gallons of water were consumed in 2012 by the Authority's customers and paid for by their user fees. By comparison, 32.2% of the wastewater treated was billable significantly up from 25.5% in 2011. The remaining 2.495 billion gallons of wastewater, down from 3.24 billion gallons from 2011, entered the sewer system from rainwater, groundwater, streams and rivers, water line breaks, firefighting efforts, etc. The 2012 annual rainfall greatly decreased from the previous year; 47.16 inches in 2011 to 39.54 inches in 2012.

On April 20, 2011 Governor Corbett asked the natural gas companies to quit bringing frac water to wastewater treatment facilities for disposal. As a result the Authority did not treat any of this water after that date. Coal bed methane wastewater continued to be treated until the middle of July when the DEP decided that that waste also needed to be permitted to be accepted for treatment. During the year the facility treated 2,961,560 gallons of frac wastewater and 3,203,020 gallons of coal bed methane wastewater and received a combined payment of \$799,521. Due to the changes that the gas companies have made with the way that they recycle and dispose of this wastewater, along with the decision of the US EPA and PA DEP that this waste can no longer be treated by wastewater treatment facilities, this revenue stream will no longer be available.

Revenues generated by Sewage Treatment per 1,000 gallons consumed - \$9.61

Operating expenses per 1,000 gallons consumed - \$6.11

Total Operating Revenues were \$10,868,472, a decrease of \$701,366, or 6.1% over 2011, primarily caused by the decrease in well water processing revenue as discussed above which totaled \$799,521 in 2011.

Operating Expenses were \$8,425,796, an increase of \$1,615,580, or 23.7% over 2011. The largest increases came from additional personnel and related employee benefits, and most notably, a new \$1,000,000 annual 'Intergovernmental Agreement Fee' paid to the City of McKeesport starting in calendar year 2012.



# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

### FINANCIAL ANALYSIS

The following condensed financial statements and other selected information serve as financial data and indicators to help the Authority manage, monitor, and plan.

#### Condensed Statement of Net Position

|                                                | Dec. 31, 2012      | Dec. 31, 2011     | % Change      |
|------------------------------------------------|--------------------|-------------------|---------------|
| Current and other assets                       | 31,044,287         | 38,037,056        | -18.4%        |
| Capital assets-net of accumulated depreciation | 81,820,140         | 56,122,522        | 45.8%         |
| <b>Total Assets</b>                            | <b>112,864,427</b> | <b>94,159,578</b> | <b>19.9%</b>  |
| Current and other liabilities                  | 96,667,771         | 88,319,685        | 9.5%          |
| <b>Net Position</b>                            | <b>16,196,656</b>  | <b>5,839,893</b>  | <b>177.3%</b> |

#### Condensed Statement of Revenues, Expenses, and Changes in Net Position

|                                  | Dec. 31, 2012     | Dec. 31, 2011    | % Change      |
|----------------------------------|-------------------|------------------|---------------|
| Operating revenues               | 10,868,472        | 11,569,838       | -6.1%         |
| Operating expenses               | 8,425,796         | 6,810,216        | 23.7%         |
| <b>Operating income</b>          | <b>2,442,676</b>  | <b>4,759,622</b> | <b>-48.7%</b> |
| Interest income                  | 45,536            | 37,254           | 22.2%         |
| Interest expense                 | (3,483,798)       | (3,501,941)      | .5%           |
| Amortization of Bond Issue Costs | (119,731)         | (63,679)         | 88.0%         |
| Grant proceeds                   | 11,456,371        | 0                | 100.0%        |
| <b>Change in Net Position</b>    | <b>10,356,763</b> | <b>1,231,256</b> | <b>741.2%</b> |

Overall, the Authority's financial condition remained strong in 2012. Most of the ten service communities are up to date with their payments with the exception of East McKeesport which continues to lag one quarter behind due to the length of time it takes to get their consumption numbers from the water authority. The addition of the McKeesport Collection System in 2009 and the Duquesne Wastewater Treatment Plant and System in 2010 has greatly expanded the scope of the Authority's influence and responsibilities. Grant proceeds of \$11,456,371 were received in 2012 from PENNVEST for the wastewater treatment facility project.

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

### FINANCIAL ANALYSIS (Continued)

The purchase of the Borough of Dravosburg's plant and system in 2011, as well as, the expressed interest of at least three of the Authority's service communities to sell their systems to the Authority bodes well for the future success of the Authority.

The following table shows the Authority's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues. The effect of the loss in well water processing fees and the addition of the 'Intergovernmental Agreement Fee' in 2012 is reflected in the decrease in operating cash as a percentage of operating revenues.

|                                                      | 2012         | 2011          | Variance      |
|------------------------------------------------------|--------------|---------------|---------------|
| Total operating revenues                             | \$10,868,472 | \$ 11,569,838 | (\$701,366)   |
| Net cash provided by operations                      | \$3,470,268  | \$5,787,771   | (\$2,317,503) |
| Operating cash as a percentage of operating revenues | 31.9%        | 50.0%         | (18.1)%       |

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

On December 31, 2012, the Authority had \$81,820,140 invested in capital assets, including land, infrastructure, buildings, plant and office machinery and equipment, and vehicles net of depreciation. This amount represents a net increase (including additions, deletions and depreciation) of \$25,697,618, or approximately 46% from last year.

The Authority had approximately \$26,995,938 in capital additions during the 2012 year, mainly comprised of 1) costs incurred of \$26,323,215 for the Act 537 system improvements and upgrades including WWTP expansion, pump station construction, sanitary sewer construction and force main construction, and 2) costs for the construction of a garage at the Walnut Street line maintenance facility totaling \$368,518.

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

### CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

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

|                              | <u>2012</u>          | <u>2011</u>          | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|------------------------------|----------------------|----------------------|--------------------------------------|
| Land                         | \$ 61,132            | \$ 61,132            | \$ -                                 |
| Infrastructure               | 33,159,918           | 33,159,918           | -                                    |
| Buildings                    | 10,141,872           | 9,773,354            | 368,518                              |
| Plant Machinery & Equipment  | 7,951,625            | 7,859,058            | 92,567                               |
| Office Machinery & Equipment | 114,890              | 103,929              | 10,961                               |
| Vehicles and Equipment       | 1,112,547            | 911,870              | 200,677                              |
|                              | <u>\$ 52,541,984</u> | <u>\$ 51,869,261</u> | <u>\$ 672,723</u>                    |
| Accumulated Depreciation     | <u>(15,086,018)</u>  | <u>(13,787,698)</u>  | <u>(1,298,320)</u>                   |
|                              | <u>\$ 37,455,966</u> | <u>\$ 38,081,563</u> | <u>\$ (625,597)</u>                  |
| Construction in Progress     | 44,364,174           | 18,040,959           | 26,323,215                           |
|                              | <u>\$ 81,820,140</u> | <u>\$ 56,122,522</u> | <u>\$ 25,697,618</u>                 |

### DEBT ADMINISTRATION

As of December 31, 2012, the Authority had total long-term debt outstanding of \$95,753,361. The Authority's debt obligations are comprised of 1) six sewer revenue bonds, 2) one sewer revenue note, 3) one PENNVEST note, 4) two capital lease obligations with PNC Equipment Finance, 4) one capital lease obligation with Ally Financial, and 5) a purchase agreement with the Borough of Dravosburg as follows:

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

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

#### **DEBT ADMINISTRATION: (Continued)**

In October of 2008, the Authority issued Sewer Revenue Bonds - Series of 2008 under the terms of a First Supplemental Trust Indenture dated October 2, 2008, by and between the Authority and the Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition facilities required for the proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding of a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. The bonds provide for early redemption options as detailed in the official statement of issue. In July of 2012, Sewer Revenue Bonds - Series B of 2012 were issued for the purpose of advance refunding a portion (\$4,085,000) of Sewer Revenue Bonds - Series of 2008, leaving a balance at December 31, 2012 of \$5,575,000. Interest rates range between 5.2 and 5.45% and the bonds are scheduled to mature December 15, 2039.

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 in the amount of \$10,000,000 for the purpose of 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2012 is \$10,000,000.

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 2.0 and 5.16%. The bonds are scheduled to mature December 15, 2040. The remaining principal balance on the bond issue as of December 31, 2012 is \$24,995,000.

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

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

#### **DEBT ADMINISTRATION: (Continued)**

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.25 and 5.00%. The bonds are scheduled to mature December 15, 2030. The remaining principal balance on the bond issue as of December 31, 2012 is \$24,705,000.

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036. The remaining principal balance on the bond issue as of December 31, 2012 is \$5,920,000.

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033. The remaining principal balance on the bond issue as of December 31, 2012 is \$4,650,000.

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

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

#### **DEBT ADMINISTRATION: (Continued)**

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. The Note is scheduled to mature on February 2, 2014. As of December 31, 2012, the outstanding balance on this Note obligation is \$8,092,423.

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$11,456,372 on the loan as of December 31, 2012.

In July of 2010, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Vactor 2100 on a 2009 International Cab and Chassis for \$328,368. The terms of the lease call for 5 annual payments of \$71,578.41 at an annual interest rate of 4.5% with a \$1 buy-out option at the completion of the lease term. The lease is scheduled to expire in August of 2014. The remaining principal balance on the lease as of December 31, 2012 is \$134,042.

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016. The remaining principal balance on the lease as of December 31, 2012 is \$127,975.

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

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

#### **DEBT ADMINISTRATION: (Continued)**

In September of 2012, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Tahoe for \$34,995. The terms of the lease call for 3 annual payments of \$12,444.72 at an annual interest rate of 6.84%. The lease is scheduled to expire in September of 2014. The remaining principal balance on the lease as of December 31, 2012 is \$22,550.

On December 28, 2010, the Authority entered into agreement with the Borough of Dravosburg for the purchase of the Borough's sanitary sewer system and wastewater treatment plant in the amount of \$330,000 effective January 1, 2011. The terms of the agreement call for the advance payment of \$180,000 in 2011 with two subsequent payments of \$75,000 on January 1, 2012 and 2013 respectively. The balance due the Borough of Dravosburg as of December 31, 2012 is \$75,000.

The Authority is scheduled to make principal and interest payments on their total debt of approximately \$1,992,360 during the 2012 calendar year.

#### **SUBSEQUENT EVENT**

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds - Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041.

# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

### **GENERAL TRENDS AND SIGNIFICANT EVENTS**

Population in the Authority's service area continues to remain fairly constant, with a decrease in the population of the City of McKeesport being offset by increases in other communities such as White Oak Borough, North Versailles Township and Elizabeth Township. It has been estimated that the population in the service area will increase at a rate of 90 persons per year for the next five years.

Throughout the year the Authority continued to work with the PA Department of Environmental Protection to implement its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. These plans were approved in July of 2007. The project design work was completed and submitted to the PA Department of Environmental Protection for review in July of 2009 and approved in July of 2010. Fifteen construction projects were put out for bid in February of 2011 and awarded in May. The completion date for these projects is the end of 2013. The project involves significant new treatment processes, pumping stations & interceptor lines with an associated capital cost of approximately fifty-four (54) million dollars. In order to prevent a huge increase in the sewer rates the Authority has chosen to issue a series of \$10 million bonds at a rate of one per year. By doing this the Authority has been able to step the necessary rate increases over a period of several years. To this end a ten (10) million dollar bond was issued in 2008 and the rates were increased by \$0.74/1000 gallons, or 20.5% , a second ten million dollar bond was issued in 2009 which increased the rates \$0.86/1000 gallons, or 19.4%, and a final twenty-five (25) million dollar bond was issued in 2010 raising the rates \$0.80/1000 gallons, or 15.1%.

The US Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result the federal government funded the relocation of most of the CSO structures. Construction for Phase I of the project was completed in 2007 and phase (II) of the project was completed in 2010. One remaining outfall, Evans Avenue, remains to be raised to complete the project, however funding was not available in 2011 and currently still remains unfunded. The Authority's new outfall structures have greatly reduced the amount of river water that flows back through the pipes and into the sewer lines. This in return has reduced the costs associated with treating unnecessary water.



# THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

## Management's Discussion and Analysis

### **GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)**

As was noted earlier in this report, in 2009, the Authority acquired the sewage collection system from the City of McKeesport. The acquisition of the sewer system included more than 550,000 feet of sewer lines ranging in size from 6" to 42" and two pumping stations. The acquisition of the Duquesne plant and system in 2010 added an additional 157,880 feet of sewer lines and 557 manholes to the Authority's care. In order to maintain this vast system, eight new employees were hired in 2010 to complete a 13 man crew dedicated to maintaining and repairing the lines, manholes, catch basins and pumping stations. The addition of the Dravosburg system in 2011 along with the Authority's stepped up efforts to map all of the lines, manholes and catch basins on its Geographic Information System (GIS) software program resulted in an additional eight new employees.

With the acquisition of the Duquesne & Dravosburg systems, the Authority also assumed the corresponding sewage billing responsibilities. Two additional employees were hired in 2011 to assist in the efficient running of the billing department.

### **CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, 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 customers of the Municipal Authority of the City of McKeesport. If you have questions about this report or wish to request additional financial information, please contact the Authority offices at 100 Atlantic Avenue, McKeesport, PA 15132, (412)-673-8276.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31,**

| <b><u>ASSETS</u></b>                                      | <b><u>2012</u></b>           | <b><u>2011</u></b>          |
|-----------------------------------------------------------|------------------------------|-----------------------------|
| <b>CURRENT ASSETS:</b>                                    |                              |                             |
| Cash and Cash Equivalents                                 | \$ 2,779,272                 | \$ 4,189,571                |
| Cash and Cash Equivalents - Restricted                    | 7,506,622                    | -                           |
| Sewage Service Receivable                                 | 1,159,985                    | 1,078,547                   |
| Delinquent Sewage Service Receivable - City of McKeesport | 202,585                      | 207,877                     |
| Accrued Sewage Service (Unbilled)                         | 916,801                      | 1,077,041                   |
| Deposits                                                  | 3,000                        | 3,000                       |
| <b>TOTAL CURRENT ASSETS</b>                               | <b><u>\$ 12,568,265</u></b>  | <b><u>\$ 6,556,036</u></b>  |
| <b>RESTRICTED ASSETS:</b>                                 |                              |                             |
| Investments                                               | \$ 16,368,769                | \$ 29,682,542               |
| <b>TOTAL RESTRICTED ASSETS</b>                            | <b><u>\$ 16,368,769</u></b>  | <b><u>\$ 29,682,542</u></b> |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                     |                              |                             |
| Land                                                      | \$ 61,132                    | \$ 61,132                   |
| Infrastructure                                            | 33,159,918                   | 33,159,918                  |
| Buildings                                                 | 10,141,872                   | 9,773,354                   |
| Plant Machinery and Equipment                             | 7,951,625                    | 7,859,058                   |
| Office Machinery and Equipment                            | 114,890                      | 103,929                     |
| Vehicles and Equipment                                    | 1,112,547                    | 911,870                     |
|                                                           | <u>\$ 52,541,984</u>         | <u>\$ 51,869,261</u>        |
| Less: Accumulated Depreciation                            | (15,086,018)                 | (13,787,698)                |
|                                                           | <u>\$ 37,455,966</u>         | <u>\$ 38,081,563</u>        |
| Construction in Progress                                  | 44,364,174                   | 18,040,959                  |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b>                  | <b><u>\$ 81,820,140</u></b>  | <b><u>\$ 56,122,522</u></b> |
| <b>OTHER ASSETS:</b>                                      |                              |                             |
| Deferred Bond Issue Costs                                 | \$ 2,107,253                 | \$ 1,798,478                |
| <b>TOTAL OTHER ASSETS</b>                                 | <b><u>\$ 2,107,253</u></b>   | <b><u>\$ 1,798,478</u></b>  |
| <b>TOTAL ASSETS</b>                                       | <b><u>\$ 112,864,427</u></b> | <b><u>\$ 94,159,578</u></b> |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31,**  
**(CONTINUED)**

|                                               | <u>2012</u>                  | <u>2011</u>                 |
|-----------------------------------------------|------------------------------|-----------------------------|
| <b><u>LIABILITIES AND NET POSITION</u></b>    |                              |                             |
| <b>CURRENT LIABILITIES:</b>                   |                              |                             |
| Accounts Payable                              | \$ 1,100,954                 | \$ 6,722,987                |
| Accrued Payroll and Taxes                     | 90,925                       | 66,049                      |
| Sewage Service Deposits                       | 6,300                        | 7,200                       |
| Accrued Interest                              | 140,884                      | 144,868                     |
| Due to Dravosburg Borough - Current Portion   | 75,000                       | 75,000                      |
| Capital Leases - Current Portion              | 107,364                      | 62,724                      |
| Current Portion of Bonds Payable              | 1,810,000                    | 1,325,000                   |
| <b>TOTAL CURRENT LIABILITIES</b>              | <b><u>\$ 3,331,427</u></b>   | <b><u>\$ 8,403,828</u></b>  |
| <b>LONG-TERM LIABILITIES:</b>                 |                              |                             |
| Bonds Payable - Long Term Portion             | \$ 74,035,000                | \$ 74,700,000               |
| Premium on Bonds Payable                      | 759,042                      | 802,007                     |
| Discount on Bonds Payable                     | (1,053,954)                  | (911,873)                   |
| Deferred Interest on Advance Refunding        | (257,710)                    | -                           |
| Pennvest Loan Payable                         | 11,456,372                   | -                           |
| Sewer Revenue Note 2011                       | 8,092,423                    | 5,000,000                   |
| Capital Leases - Long Term Portion            | 177,202                      | 134,043                     |
| Due to Dravosburg Borough - Long Term Portion | -                            | 75,000                      |
| Compensated Absences                          | 127,969                      | 116,680                     |
| <b>TOTAL LONG-TERM LIABILITIES</b>            | <b><u>\$ 93,336,344</u></b>  | <b><u>\$ 79,915,857</u></b> |
| <b>TOTAL LIABILITIES</b>                      | <b><u>\$ 96,667,771</u></b>  | <b><u>\$ 88,319,685</u></b> |
| <b>NET POSITION:</b>                          |                              |                             |
| Net Investment in Capital Assets              | \$ 4,884,339                 | \$ (902,331)                |
| Restricted for Debt Service                   | 5,588,640                    | 5,445,495                   |
| Unrestricted                                  | 5,723,677                    | 1,296,729                   |
| <b>TOTAL NET POSITION</b>                     | <b><u>\$ 16,196,656</u></b>  | <b><u>\$ 5,839,893</u></b>  |
| <b>TOTAL LIABILITIES AND NET POSITION</b>     | <b><u>\$ 112,864,427</u></b> | <b><u>\$ 94,159,578</u></b> |

The accompanying notes are an integral part of these financial statements

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

|                                                                      | <u>2012</u>          | <u>2011</u>           |
|----------------------------------------------------------------------|----------------------|-----------------------|
| <b><u>OPERATING REVENUES</u></b>                                     |                      |                       |
| Sewage Treatment Services                                            | \$ 10,676,796        | \$ 10,644,558         |
| Sludge Hauling                                                       | 97,501               | 93,639                |
| Tap Fees and Permits                                                 | 30,800               | 5,350                 |
| Well Water Processing                                                | -                    | 799,521               |
| Miscellaneous                                                        | 63,375               | 26,770                |
|                                                                      | <u>\$ 10,868,472</u> | <u>\$ 11,569,838</u>  |
| <b><u>OPERATING EXPENSES</u></b>                                     |                      |                       |
| Personnel Costs                                                      | \$ 3,654,000         | \$ 3,076,961          |
| Professional Services                                                | 290,693              | 253,750               |
| Sewage Plant Costs                                                   | 1,842,633            | 1,817,447             |
| Other General and Administrative                                     | 340,150              | 359,686               |
| Intergovernmental Agreement Fee                                      | 1,000,000            | -                     |
| Depreciation                                                         | 1,298,320            | 1,302,372             |
|                                                                      | <u>\$ 8,425,796</u>  | <u>\$ 6,810,216</u>   |
| <b>NET OPERATING INCOME BEFORE NON-OPERATING REVENUE AND EXPENSE</b> | <u>\$ 2,442,676</u>  | <u>\$ 4,759,622</u>   |
| <b><u>NON-OPERATING REVENUE AND (EXPENSE)</u></b>                    |                      |                       |
| Interest Income                                                      | \$ 45,536            | \$ 37,254             |
| PENNVEST Grant Proceeds                                              | 11,456,371           | -                     |
| Interest on Long-Term Debt                                           | (3,483,798)          | (3,501,941)           |
| Amortization of Bond Issue Costs                                     | (104,022)            | (63,679)              |
| <b>TOTAL NON-OPERATING REVENUE AND (EXPENSE)</b>                     | <u>\$ 7,914,087</u>  | <u>\$ (3,528,366)</u> |
| <b>INCREASE &lt;DECREASE&gt; IN NET POSITION</b>                     | <u>\$ 10,356,763</u> | <u>\$ 1,231,256</u>   |
| NET POSITION - JANUARY 1,                                            | 5,839,893            | 4,616,770             |
| Prior Period Adjustments                                             | -                    | (8,133)               |
| <b>NET POSITION - DECEMBER 31,</b>                                   | <u>\$ 16,196,656</u> | <u>\$ 5,839,893</u>   |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                                                                                    | <u>2012</u>                 | <u>2011</u>                  |
|----------------------------------------------------------------------------------------------------|-----------------------------|------------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                                 |                             |                              |
| Cash Received from Sewage Billings                                                                 | \$ 10,950,816               | \$ 11,642,301                |
| Cash Paid to Employees for Salaries and Benefits                                                   | (3,617,835)                 | (3,058,616)                  |
| Cash Paid to Suppliers for Goods and Services                                                      | (3,862,713)                 | (2,795,914)                  |
| <b>Net Cash Provided by Operating Activities</b>                                                   | <b><u>\$ 3,470,268</u></b>  | <b><u>\$ 5,787,771</u></b>   |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                             |                             |                              |
| (Increase) Decrease in Restricted Assets                                                           | \$ 13,313,773               | \$ 1,731,186                 |
| Proceeds from Bond Issues                                                                          | 10,640,000                  | 26,180,000                   |
| Proceeds from Sewer Revenue Note                                                                   | 19,796,676                  | 5,000,000                    |
| Proceeds from Pennvest Loan                                                                        | 11,456,372                  | -                            |
| Grant Proceeds                                                                                     | 11,456,371                  | -                            |
| Proceeds from Capital Lease                                                                        | 196,824                     | -                            |
| Proceeds - Dravosburg                                                                              | -                           | 330,000                      |
| Principal Payments - Dravosburg                                                                    | (75,000)                    | -                            |
| Bond Closing Costs                                                                                 | (601,032)                   | (577,724)                    |
| Principal Payments on Long-Term Debt                                                               | (27,633,278)                | (26,155,145)                 |
| Interest Paid on Long-Term Debt                                                                    | (3,471,709)                 | (3,420,729)                  |
| Purchase of Property and Equipment (Net of Refund)                                                 | (32,498,478)                | (9,411,662)                  |
| <b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>                    | <b><u>\$ 2,580,519</u></b>  | <b><u>\$ (6,324,074)</u></b> |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                                 |                             |                              |
| Interest Income Received                                                                           | \$ 45,536                   | \$ 37,254                    |
| <b>Net Cash Provided By Investing Activities</b>                                                   | <b><u>\$ 45,536</u></b>     | <b><u>\$ 37,254</u></b>      |
| <b>Net Increase in Cash and Cash Equivalents</b>                                                   | <b>\$ 6,096,323</b>         | <b>\$ (499,049)</b>          |
| CASH AND CASH EQUIVALENTS - JANUARY 1                                                              | <u>4,189,571</u>            | <u>4,688,620</u>             |
| <b>CASH AND CASH EQUIVALENTS - DECEMBER 31</b>                                                     | <b><u>\$ 10,285,894</u></b> | <b><u>\$ 4,189,571</u></b>   |
| <br>                                                                                               |                             |                              |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>             |                             |                              |
| Net Operating Income                                                                               | \$ 2,442,676                | \$ 4,759,622                 |
| <b>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:</b> |                             |                              |
| Depreciation                                                                                       | 1,298,320                   | 1,302,372                    |
| <b>Change in Current Assets and Liabilities:</b>                                                   |                             |                              |
| (Increase) Decrease in Accounts Receivable                                                         | 84,094                      | 21,750                       |
| Increase (Decrease) in Accounts Payable                                                            | (390,087)                   | (321,756)                    |
| Increase (Decrease) in Accrued Expenses                                                            | 24,876                      | 18,345                       |
| Increase (Decrease) in Sewage Service Deposits                                                     | (900)                       | (5,850)                      |
| Increase (Decrease) in Accumulated Compensated Absences                                            | 11,289                      | 13,288                       |
| <b>Net Cash Provided by Operating Activities</b>                                                   | <b><u>\$ 3,470,268</u></b>  | <b><u>\$ 5,787,771</u></b>   |

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

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

The Municipal Authority of the City of McKeesport (the Authority) is a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipality Authorities Act of 1945 (as amended). The Council of the City of McKeesport (the City) created the Authority on November 29, 1949 under an order from the Sanitary Water Board of the Commonwealth of Pennsylvania. The Authority was created for a period of 50 years to end December 5, 1999, and was subsequently extended through December 5, 2057. The Authority was created for the purpose of acquiring, holding, constructing, improving, maintaining and operating, owning and leasing (either in capacity as lessor or lessee) certain projects. These projects include sewers, sewer systems or parts thereof, sewage treatment works, also including the acquisition of land for sewage treatment works and pumping stations, and all other necessary facilities and apparatus that the Board of Directors may authorize as necessary for the project. The Authority provides waste collection and treatment services, under agreement, for the following municipalities:

|                         |                          |
|-------------------------|--------------------------|
| City of McKeesport      | White Oak Borough        |
| Port Vue Borough        | Liberty Borough          |
| East McKeesport Borough | Elizabeth Township       |
| Glassport Borough       | Lincoln Borough          |
| Versailles Borough      | North Versailles Borough |
| City of Duquesne        | Dravosburg Borough       |

Per the terms of these agreements, the Authority is the provider of sewage treatment and disposal service to the above municipalities, and these municipalities have agreed to construct and maintain such sewers, interceptors and pumping stations as is necessary to bring the sewage and industrial waste to a point where it flows into the interceptors of the Authority.

The five-members of the Authority Board of Directors are appointed by the members of Council of the City of McKeesport. Revenue or other cash received must be disbursed in accordance with provisions of the Trust Indentures dated October 1, 2006, as amended and supplemented by the First Supplemental Trust Indenture dated as of October 2, 2008, as amended and supplemented by the Second Supplemental Trust Indenture dated as of December 1, 2009, as amended and supplemented by the Third Supplemental Trust Indenture dated as of December 28, 2010, as amended and supplemented by the Fourth Supplemental Trust Indenture dated August 31, 2011, as amended and supplemented by the Fifth Supplemental Trust Indenture dated January 5, 2012, and as amended and supplemented by the Sixth Supplemental Trust Indenture dated August 23, 2012 by and between the Authority and the Bank of New York Mellon Trust Company as trustee, securing the Sewer Revenue Bonds Series of 2006, 2008, 2009, 2010, 2011, 2012 and 2012B respectively.

The financial statement of the Municipal Authority of the City of McKeesport 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.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

**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 Municipal Authority of the City of McKeesport consists of all funds, departments, boards and agencies that are not legally separate from the Authority. As defined by GASB No. 14, component units are legally separate entities that 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 these criteria, the Municipal Authority of the City of McKeesport has no component units, but is considered a component unit of the City of McKeesport. These financial statements include only the activity of the Municipal Authority of the City of McKeesport.

**BASIS OF ACCOUNTING**

The Authority is accounted for as an enterprise fund since its operations are financed and operated in a manner similar to the private sector. 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**

For the purposes of the statement of cash flows, 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. Cash and cash equivalents – restricted represents the balance of PNC Sewer Revenue Note funds (Note 4), and funds received from the Pennsylvania Infrastructure Investment Authority (Note 4) restricted for the Authority's Waste Water Treatment Plant (WWTP) expansion project.

**INVESTMENTS**

Investments are made pursuant to Section 7.1 of the Municipal Authorities Act and can include the following:

- I. U.S. Treasury Bills
- II. Obligations of the U.S. Government and Federal Agencies
- III. Certificates of Deposit, Checking and Savings Accounts insured by the FDIC or National Credit Union Share Insurance Fund (NCUSIF)
- IV. General obligation bonds of the federal government, Commonwealth of Pennsylvania or any state agency
- V. Shares of Mutual Funds whose investments are restricted to the aforementioned investments

In addition, the Board of Directors can invest the Authority's sinking funds as authorized for local governments in the Local government Unit Debt Act, 53 Pa.C.S. 8224. Investment of the Authority's restricted assets are made pursuant to and restricted by the aforementioned Trust Indentures securing the Sewer Revenue Bonds Series of 2006, 2008, 2009, 2010, 2011, 2012, and 2012B. Investments for 2012 and 2011 (See Restricted Assets) include Dreyfus Government cash management agency fund shares, certificates of deposit, corporate notes, fixed income investments with the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. Investments are stated at fair value. The Authority is in compliance with these restrictions as of December 31, 2012 and 2011.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

**RESTRICTED ASSETS**

In accordance with the provisions of the aforementioned Trust Indentures, by and between the Bank of New York Mellon Trust Company and the Municipal Authority of the City of McKeesport, which secure the Authority's Sewer Revenue Bonds, the Authority is obligated to restrict certain funds to pay for construction related expenditures and to meet debt service requirements. These funds are reflected in Exhibit A as 'restricted assets' and are further detailed in Note 2.

**ACCOUNTS RECEIVABLE**

Accounts receivable are stated at net realizable value. Receivables are mainly comprised of billed and unbilled sewage services rendered to the participating municipalities as herein described in Note 1. The Authority does not maintain an allowance for doubtful accounts, as management estimates that uncollectible amounts at year-end, if any, would not materially effect the financial position of the Authority.

**INVENTORY**

The Authority does not maintain a physical inventory of materials, chemicals, and other supplies. Management estimates that inventory values during the year are minimal for cost control purposes. Accordingly, management is of the opinion that any value that existed at December 31, 2012 and 2011 would not materially effect the financial position of the Authority.

**PROPERTY, PLANT, AND EQUIPMENT**

The Authority records property, plant and equipment purchases at cost. Property, plant and equipment include major betterments that extend the economic useful life of the assets affected. The Authority maintains a capitalization threshold of \$500. Routine repair and maintenance costs are charged to operations as incurred. Depreciation expense is calculated on a straight-line basis over the estimated useful life of the asset as follows:

|                         |            |
|-------------------------|------------|
| Infrastructure          | 50 Years   |
| Buildings               | 40 Years   |
| Machinery and Equipment | 3-20 Years |
| Vehicles                | 7-10 Years |

Depreciation expense for the year ended December 31, 2012 and 2011 was \$1,298,320 and 1,302,372 respectively. Construction in progress represents funds paid toward the following Authority projects:

|                                             | <u>12/31/2012</u>    | <u>12/31/2011</u>    |
|---------------------------------------------|----------------------|----------------------|
| Act 537 System Improvements Project:        |                      |                      |
| Engineering and Other Professional Fees     | \$ 3,704,232         | \$ 3,186,769         |
| WWTP Expansion Project                      | 24,937,598           | 9,541,331            |
| Pump Stations Construction                  | 13,987,159           | 2,158,041            |
| East/West Shore Sanitary Sewer Construction | 1,420,313            | 2,696,677            |
| River Crossing Force Main                   | 314,872              | 314,872              |
| Garage - Walnut Street Line Maint Facility  | -                    | 143,269              |
|                                             | <u>\$ 44,364,174</u> | <u>\$ 18,040,959</u> |



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**NET POSITION**

In 2012, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63 - 'Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position'. Accordingly, Net Position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy Authority obligations. Net Position is classified as follows:

- 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 Net Position – This component of Net Position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.
- Unrestricted – Consists of all other Net Position that does not meet the definition of 'restricted' or 'net investment in capital 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.

**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.

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Municipal Authority of the City of McKeesport, these revenues are sewer user charges, sludge hauling fees, tap-in fees, and other miscellaneous revenues generated from operating activities. Operating expenses are the necessary costs incurred to operate the Authority. Non-operating revenues of the Authority consist of grant and interest revenue. Non-operating expenses consist of interest on long-term debt and bond issuance cost amortization expense.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**CASH DEPOSITS:**

At December 31, 2012 and 2011, the Authority had the following bank balances and carrying value on its' cash and cash equivalent accounts held with PNC Bank:

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**CASH DEPOSITS: (Continued)**

|                                                                    | --- December 31, 2012 --- |                           | --- December 31, 2011 --- |                           |
|--------------------------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                                                    | <u>Bank<br/>Balance</u>   | <u>Carrying<br/>Value</u> | <u>Bank<br/>Balance</u>   | <u>Carrying<br/>Value</u> |
| Cash and Cash Equivalents                                          | \$ 10,266,758             | \$ 10,285,894             | \$ 4,367,520              | \$ 4,189,571              |
| Certificates of Deposit<br>(Shown as part of<br>Restricted Assets) | 3,139,331                 | 3,139,331                 | 3,908,244                 | 3,908,244                 |
|                                                                    | <u>\$ 13,406,089</u>      | <u>\$ 13,425,225</u>      | <u>\$ 8,275,764</u>       | <u>\$ 8,097,815</u>       |

The difference between the bank balance and the carrying value represents reconciling items such as deposits in transit and outstanding checks. All funds in a 'noninterest-bearing transaction account' are insured in full by the Federal Deposit Insurance Corporation (FDIC) from December 31, 2010 through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules. On May 20, 2009, the FDIC extended the increased insurance limits of \$250,000 until December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor.

**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 policy for custodial credit risk. As of December 31, 2012 and 2011, \$666,257 and \$2,414,045 respectively of the Authority's bank balance totals are exposed to custodial credit risk as these amounts represent 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.

**INVESTMENTS:**

The fair value and maturity term of the Authority's investments as of December 31, 2012 and 2011 is as follows:

|                          | ----- December 31, 2012 ----- |                               |                      |
|--------------------------|-------------------------------|-------------------------------|----------------------|
|                          | <u>Fair Value</u>             | <u>No Stated<br/>Maturity</u> | <u>0-1 Years</u>     |
| Dreyfus Cash Mgt Funds   | \$ 1,355,422                  | \$ 1,355,422                  | \$ -                 |
| Corporate Notes          | 2,249,935                     | -                             | 2,249,935            |
| Money Market Funds       | 13,398                        | 13,398                        | -                    |
| U.S. Agency Fixed Income | 9,610,683                     | -                             | 9,610,683            |
|                          | <u>\$ 13,229,438</u>          | <u>\$ 1,368,820</u>           | <u>\$ 11,860,618</u> |

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**INVESTMENTS: (Continued)**

|                          | December 31, 2011 |                       |               |
|--------------------------|-------------------|-----------------------|---------------|
|                          | Fair Value        | No Stated<br>Maturity | 0-1 Years     |
| Dreyfus Cash Mgt Funds   | \$ 8,398,622      | \$ 8,398,622          | \$ -          |
| Corporate Notes          | 6,747,689         | -                     | 6,747,689     |
| U.S. Agency Fixed Income | 10,627,987        | -                     | 10,627,987    |
|                          | \$ 25,774,298     | \$ 8,398,622          | \$ 17,375,676 |

Investments classified as U.S. Agencies are securities of agencies of the U.S. Government that have an implied but not explicit guarantee. Management does not anticipate any problems with these securities.

**Credit Risk:**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has no formal investment policy that limits its investment choices based on credit ratings by nationally recognized rating organizations. As of December 31, 2012 and 2011, investments in U.S. Agencies and Corporate Notes have received an 'Aaa' rating from Moodys.

**Custodial Credit Risk:**

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Authority's investments in Dreyfus Cash Management Agency Funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Authority does not have a formal investment policy for custodial credit risk.

**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. The Authority's certificate of deposit, corporate note, and U.S. Agency fixed income security investments have maturity terms of less than 1 year.

**Concentration of Credit Risk:**

The Authority places no limit on the amount it may invest in any one issuer.

The Authority's restricted assets as of December 31, 2012 and 2011 are comprised of the following:

|                    | 12/31/2012    | 12/31/2011    |
|--------------------|---------------|---------------|
| Construction Funds | \$ 10,766,731 | \$ 24,237,047 |
| Clearing Fund      | 13,398        | -             |
| Debt Service Funds | 5,588,640     | 5,445,495     |
|                    | \$ 16,368,769 | \$ 29,682,542 |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT**

The following comprises the changes to the Authority's property, plant, and equipment account during 2012 and 2011:

|                                | <b>Balance<br/>1/1/2012</b> | <b>Additions</b>     | <b>Deletions</b>    | <b>Balance<br/>12/31/2012</b> |
|--------------------------------|-----------------------------|----------------------|---------------------|-------------------------------|
| Land                           | \$ 61,132                   | \$ -                 | \$ -                | \$ 61,132                     |
| Infrastructure                 | 33,159,918                  | -                    | -                   | 33,159,918                    |
| Buildings                      | 9,773,354                   | 368,518              | -                   | 10,141,872                    |
| Plant Machinery and Equipment  | 7,859,058                   | 92,567               | -                   | 7,951,625                     |
| Office Machinery and Equipment | 103,929                     | 10,961               | -                   | 114,890                       |
| Vehicles and Equipment         | 911,870                     | 200,677              | -                   | 1,112,547                     |
|                                | <u>\$ 51,869,261</u>        | <u>\$ 672,723</u>    | <u>\$ -</u>         | <u>\$ 52,541,984</u>          |
| Less: Accumulated Depreciation | (13,787,698)                | (1,298,320)          | -                   | (15,086,018)                  |
|                                | <u>\$ 38,081,563</u>        | <u>\$ (625,597)</u>  | <u>\$ -</u>         | <u>\$ 37,455,966</u>          |
| Construction in Progress       | 18,040,959                  | 26,691,733           | (368,518)           | 44,364,174                    |
|                                | <u>\$ 56,122,522</u>        | <u>\$ 26,066,136</u> | <u>\$ (368,518)</u> | <u>\$ 81,820,140</u>          |

|                                | <b>Balance<br/>1/1/2011</b> | <b>Additions</b>     | <b>Deletions</b>   | <b>Balance<br/>12/31/2011</b> |
|--------------------------------|-----------------------------|----------------------|--------------------|-------------------------------|
| Land                           | \$ 56,332                   | \$ 4,800             | \$ -               | \$ 61,132                     |
| Infrastructure                 | 33,159,918                  | -                    | -                  | 33,159,918                    |
| Buildings                      | 9,437,354                   | 336,000              | -                  | 9,773,354                     |
| Plant Machinery and Equipment  | 7,838,347                   | 32,913               | (12,202)           | 7,859,058                     |
| Office Machinery and Equipment | 86,566                      | 17,363               | -                  | 103,929                       |
| Vehicles and Equipment         | 885,670                     | 26,200               | -                  | 911,870                       |
|                                | <u>\$ 51,464,187</u>        | <u>\$ 417,276</u>    | <u>\$ (12,202)</u> | <u>\$ 51,869,261</u>          |
| Less: Accumulated Depreciation | (12,497,528)                | (1,302,372)          | 12,202             | (13,787,698)                  |
|                                | <u>\$ 38,966,659</u>        | <u>\$ (885,096)</u>  | <u>\$ -</u>        | <u>\$ 38,081,563</u>          |
| Construction in Progress       | 2,807,212                   | 15,233,747           | -                  | 18,040,959                    |
|                                | <u>\$ 41,773,871</u>        | <u>\$ 14,348,651</u> | <u>\$ -</u>        | <u>\$ 56,122,522</u>          |

**NOTE 4 – LONG-TERM DEBT**

**SEWER REVENUE BONDS – SERIES OF 2008**

In October of 2008, the Authority issued Sewer Revenue Bonds - Series of 2008 under the terms of a First Supplemental Trust Indenture dated October 2, 2008, by and between the Authority and the Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition facilities required for the proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding of a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. The bonds provide for early redemption options as detailed in the official statement of issue. In July of 2012, Sewer Revenue Bonds - Series B of 2012 were issued for the purpose of advance refunding a portion (\$4,085,000) of Sewer Revenue Bonds – Series of 2008, leaving a balance at December 31, 2012 of \$5,575,000. Interest rates range between 5.2 and 5.45% and the bonds are scheduled to mature December 15, 2039.

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**SEWER REVENUE BONDS – SERIES OF 2009**

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 under the terms of a Trust Indenture dated December 1, 2009, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

**SEWER REVENUE BONDS – SERIES OF 2010**

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 2.0 and 5.16%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2040.

**SEWER REVENUE BONDS – SERIES OF 2011**

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.25 and 5.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2030.

**SEWER REVENUE BONDS – SERIES OF 2012**

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**SEWER REVENUE BONDS – SERIES B OF 2012**

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033.

The following summarizes the Authority's bond debt service obligations of the Authority as of December 31, 2012:

| <u>Year</u> | <u>2008<br/>Principal</u> | <u>2009<br/>Principal</u> | <u>2010<br/>Principal</u> | <u>2011<br/>Principal</u> |
|-------------|---------------------------|---------------------------|---------------------------|---------------------------|
| 2013        | \$ -                      | \$ 165,000                | \$ 435,000                | \$ 1,020,000              |
| 2014        | -                         | 170,000                   | 445,000                   | 1,040,000                 |
| 2015        | -                         | 175,000                   | 460,000                   | 1,060,000                 |
| 2016        | -                         | 185,000                   | 475,000                   | 1,085,000                 |
| 2017        | -                         | 190,000                   | 490,000                   | 1,110,000                 |
| 2018-2022   | -                         | 1,100,000                 | 2,750,000                 | 6,210,000                 |
| 2023-2027   | -                         | 1,400,000                 | 3,460,000                 | 7,640,000                 |
| 2028-2032   | 1,775,000                 | 1,825,000                 | 4,480,000                 | 5,540,000                 |
| 2033-2037   | 2,565,000                 | 2,800,000                 | 5,900,000                 | -                         |
| 2038-2041   | 1,235,000                 | 1,990,000                 | 6,100,000                 | -                         |
|             | <u>\$ 5,575,000</u>       | <u>\$ 10,000,000</u>      | <u>\$ 24,995,000</u>      | <u>\$ 24,705,000</u>      |

| <u>Year</u> | <u>2012<br/>Principal</u> | <u>2012 B<br/>Principal</u> | <u>Interest</u>      | <u>Total</u>          |
|-------------|---------------------------|-----------------------------|----------------------|-----------------------|
| 2013        | \$ 185,000                | \$ 5,000                    | \$ 3,381,217         | \$ 5,191,217          |
| 2014        | 185,000                   | 5,000                       | 3,346,354            | 5,191,354             |
| 2015        | 185,000                   | 5,000                       | 3,308,572            | 5,193,572             |
| 2016        | 190,000                   | 5,000                       | 3,264,618            | 5,204,618             |
| 2017        | 190,000                   | 5,000                       | 3,217,115            | 5,202,115             |
| 2018-2022   | 1,020,000                 | 25,000                      | 14,960,163           | 26,065,163            |
| 2023-2027   | 1,190,000                 | 25,000                      | 12,431,002           | 26,146,002            |
| 2028-2032   | 1,415,000                 | 4,085,000                   | 8,696,368            | 27,816,368            |
| 2033-2037   | 1,360,000                 | 490,000                     | 4,731,489            | 17,846,489            |
| 2038-2041   | -                         | -                           | 1,140,503            | 10,465,503            |
|             | <u>\$ 5,920,000</u>       | <u>\$ 4,650,000</u>         | <u>\$ 58,477,401</u> | <u>\$ 134,322,401</u> |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**DEFERRED FINANCING COSTS AND BOND PREMIUMS**

In connection with the Authority's currently outstanding bond issues, the Authority paid approximately \$1,952,850 in bond issuance costs. These costs are being amortized on a straight-line basis over the life of the bond issues. The unamortized amount of bond issuance costs at December 31, 2012 and 2011 totaling \$2,107,253 and \$1,798,478 respectively, is reflected in Exhibit A as part of other assets. Amortization expense was \$104,022 and \$63,679 for 2012 and 2011 respectively.

In addition, bond discounts in connection with these bond issues totaled \$1,241,130. This amount is being amortized on a straight-line basis over the life of the bond issues and is charged as a component of interest expense in the statement of revenues, expenses and changes in net position. The unamortized amount of bond discount at December 31, 2012 and 2011 totaling \$1,053,954 and \$911,873 respectively, is reflected in Exhibit A as a reduction in long-term liabilities. The amount of discount charged to interest expense was \$46,153 and \$53,613 for 2012 and 2011 respectively. Lastly, the bond premium in connection with the Series of 2011 Sewer Revenue Bonds was \$816,328. This amount is being accreted on a straight-line basis over the life of the bond issue and is credited as a component of interest expense in the statement of revenues, expenses and changes in net position. The un-accreted amount of bond premium was \$759,042 and \$802,007 for 2012 and 2011 respectively, and is reflected in Exhibit A as an addition to long-term liabilities. The amount of premium credited to interest expense was \$42,965 for 2012.

In connection with the issuance of Sewer Revenue Bonds – Series B of 2012, the Authority entered into an irrevocable trust agreement with the Bank of New York Mellon Trust Company to purchase U.S. Government Securities in an amount sufficient to fully service a portion of the Series of 2008 Sewer Revenue Bond Issue debt as they mature or are called. For financial reporting purposes, these bonds totaling \$4,085,000 are considered defeased and therefore removed as a liability from the Authority's financial statements.

The difference between the defeased debt and the reacquisition price (amount deposited with escrow agent for refunding purposes) totaling \$270,596, is considered 'deferred interest' and is being amortized over the life of the new bond issue. The annual amortization of this deferred interest (\$12,885 for 2012) is reflected as a component of interest expense in the Statement of Revenues, Expenses and Changes in Net Position (Exhibit B). The unamortized amount of deferred interest at December 31, 2012 totaling \$257,710 is reflected in Exhibit A as a reduction in long-term liabilities.

**SEWER REVENUE NOTE – SERIES OF 2011**

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. The Note is scheduled to mature on February 2, 2014. As of December 31, 2012, the outstanding balance on this Note obligation is \$8,092,423.

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**PENNVEST**

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$11,456,372 on the loan as of December 31, 2012. This loan has not been final amortized as of December 31, 2012.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In July of 2010, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Vactor 2100 on a 2009 International Cab and Chassis for \$328,368. The terms of the lease call for 5 annual payments of \$71,578.41 at an annual interest rate of 4.5% with a \$1 buy-out option at the completion of the lease term. The lease is scheduled to expire in August of 2014.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016.

**CAPITAL LEASE – ALLY FINANCIAL**

In September of 2012, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Tahoe for \$34,995. The terms of the lease call for 3 annual payments of \$12,444.72 at an annual interest rate of 6.84%. The lease is scheduled to expire in September of 2014.

A schedule of the future minimum lease rental payments as of December 31, 2012 is as follows:

| <u>Year</u> | <u>2010<br/>PNC<br/>Principal</u> | <u>2012<br/>PNC<br/>Principal</u> | <u>Ally<br/>Financial<br/>Principal</u> | <u>Interest</u>  | <u>Total</u>      |
|-------------|-----------------------------------|-----------------------------------|-----------------------------------------|------------------|-------------------|
| 2013        | \$ 65,547                         | \$ 30,915                         | \$ 10,902                               | \$ 10,517        | 117,881           |
| 2014        | 68,495                            | 31,618                            | 11,648                                  | 6,111            | 117,872           |
| 2015        | -                                 | 32,349                            | -                                       | 1,505            | 33,854            |
| 2016        | -                                 | 33,092                            | -                                       | 761              | 33,853            |
|             | <u>\$ 134,042</u>                 | <u>\$ 127,974</u>                 | <u>\$ 22,550</u>                        | <u>\$ 18,894</u> | <u>\$ 303,460</u> |

**DRAVOSBURG SEWER SYSTEM AND TREATMENT PLANT**

On December 28, 2010, the Authority entered into agreement with the Borough of Dravosburg for the purchase of the Borough's sanitary sewer system and wastewater treatment plant in the amount of \$330,000 effective January 1, 2011. The terms of the agreement call for the advance payment of \$180,000 in 2011 with two subsequent payments of \$75,000 on January 1, 2012 and 2013 respectively. The balance due the Borough of Dravosburg as of December 31, 2012 is \$75,000.



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**NOTE 4 – LONG-TERM DEBT (Continued)**

The following represents the changes in the Authority's long-term debt obligations during 2012 and 2011:

|                | <b>Balance<br/>1/1/2012</b> | <b>Additions</b>     | <b>Deletions</b>       | <b>Balance<br/>12/31/2012</b> | <b>Due Within<br/>One Year</b> |
|----------------|-----------------------------|----------------------|------------------------|-------------------------------|--------------------------------|
| Bonds          | \$ 76,025,000               | \$ 10,640,000        | \$ (10,820,000)        | \$ 75,845,000                 | \$ 1,810,000                   |
| Notes          | 5,000,000                   | 31,253,048           | (16,704,253)           | 19,548,795                    | -                              |
| Dravosburg     | 150,000                     | -                    | (75,000)               | 75,000                        | 75,000                         |
| Capital Leases | 196,767                     | 196,824              | (109,025)              | 284,566                       | 107,364                        |
|                | <u>\$ 81,371,767</u>        | <u>\$ 42,089,872</u> | <u>\$ (27,708,278)</u> | <u>\$ 95,753,361</u>          | <u>\$ 1,992,364</u>            |

|                | <b>Balance<br/>1/1/2011</b> | <b>Additions</b>     | <b>Deletions</b>       | <b>Balance<br/>12/31/2011</b> | <b>Due Within<br/>One Year</b> |
|----------------|-----------------------------|----------------------|------------------------|-------------------------------|--------------------------------|
| Bonds          | \$ 50,610,000               | \$ 26,180,000        | \$ (765,000)           | \$ 76,025,000                 | \$ 1,325,000                   |
| Note           | -                           | 5,000,000            | -                      | 5,000,000                     | -                              |
| Dravosburg     | -                           | 330,000              | (180,000)              | 150,000                       | 75,000                         |
| Capital Leases | 26,205,222                  | -                    | (26,008,455)           | 196,767                       | 62,724                         |
|                | <u>\$ 76,815,222</u>        | <u>\$ 31,510,000</u> | <u>\$ (26,953,455)</u> | <u>\$ 81,371,767</u>          | <u>\$ 1,462,724</u>            |

**NOTE 5 – LEASE RENTAL EXPENSE**

On October 17, 2008, the Authority entered into a lease purchase agreement with the City of McKeesport, effective January 1, 2009, for the purchase of the City's sanitary collection system. In connection with that agreement, the Authority agreed to also pay, on a monthly basis, the outstanding balance due on two (2) loans the City has with the Pennsylvania Infrastructure Investment Authority (PENNVEST) related to improvements made to the collection system. The current monthly payments total \$25,987. During the calendar years 2012 and 2011, the Authority reimbursed the City \$311,849 and \$309,129 respectively for these PENNVEST loans. The remaining principal amounts due on these loans, per amortization schedules received from the City, total approximately \$3,914,664 at December 31, 2012. The following represents the minimum lease rental payments remaining on this obligation as of December 31, 2012:

| <b><u>Year</u></b> | <b><u>AMOUNT</u></b> |
|--------------------|----------------------|
| 2013               | \$ 312,040           |
| 2014               | 312,040              |
| 2015               | 312,040              |
| 2016               | 312,040              |
| 2017               | 312,040              |
| 2018-2022          | 1,560,200            |
| 2023-2027          | 1,222,374            |
| 2028               | 16,447               |
|                    | <u>\$ 4,359,221</u>  |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 6 – ACCUMULATED COMPENSATED ABENCES**

In accordance with the terms of the collective bargaining agreement between the Authority and the Utility Workers Union of America, AFL-CIO, all regular full-time employees are entitled to receive payment for the value of all unused vacation days upon separation of service from the Authority at the employee's regular daily rate. This practice also applies to administrative personnel not covered under the terms of the bargaining agreement. As of December 31, 2012 and 2011, the value of accumulated compensated absences totaled \$127,969 and \$116,680 respectively.

**NOTE 7 – TRANSACTIONS WITH THE CITY OF MCKEESPORT**

The Authority entered into an agreement with the City of McKeesport dated December 29, 1949, as amended June 2, 1992, to provide sewage treatment services to the City and to pay the City \$30,000 annually for the maintenance cost of the sewers located within the City. In addition, during 2008, the Authority was responsible for paying the City a quarterly administrative fee, based on water usage, for the City to bill and collect certain fees from its customers within the City. Effective February 1, 2009, the Authority began billing and collecting these fees directly to the customers within the City of McKeesport. In addition, the Authority paid the City of McKeesport \$600,000 for the estimated value of collectible delinquent sewage fees outstanding. This amount, less delinquent collections in 2012 and 2011, is reflected in the statement of net position as 'Delinquent Sewage Service Receivable – City of McKeesport' totaling \$202,585 and \$207,877 respectively.

**NOTE 8 - AUTHORITY PENSION PLAN**

The Authority established a single-employer defined benefit pension plan on March 1, 1964, as amended, to provide retirement benefits to eligible employees of the Authority.

Plan membership as of January 1, 2013 was comprised of:

|                                                                         |    |
|-------------------------------------------------------------------------|----|
| Active employees                                                        | 52 |
| Retirees and beneficiaries currently receiving benefits                 | 17 |
| Terminated employees entitled to benefits<br>but not yet receiving them | 1  |
| Total                                                                   | 70 |

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

- PARTICIPANTS** - All employees of the Authority who customarily work at least 20 hours per week and at least 5 months per year.
- ELIGIBILITY** - All participants are eligible for retirement benefits provided that they have attained the age of 62 and have completed 10 years of continuous service. Participants are eligible for early retirement at age 55 with 20 years of continuous service.
- VESTING** - Vesting occurs on a sliding scale with full vesting occurring after 20 years of service.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

- BENEFITS** - 50% of Average Compensation multiplied by participants short service percentage (effective 1/1/2008).
- DEATH BENEFIT** - The plan provides for beneficiary benefits named by the participant under options as detailed in the retirement plan.
- FUNDING** - Member contributions equal 2.5% (3% for 2012) of compensation. This rate increases to 2.75% if the Authority's Minimum Municipal Obligation (MMO) exceeds \$65,000 and 3% if the MMO exceeds \$90,000. Members contributed \$61,839 and \$61,877 to the plan during 2012 and 2011 respectively. Pension expense of the Authority totaled \$309,526 for 2012 and \$318,960 for 2011.

The investment income of the plan was used to fund administrative costs. There are no long-term contracts for contributions as of December 31, 2012 and 2011. In addition, there are no assets legally reserved for purposes other than the payment of plan member benefits. The plan does not issue a stand-alone report.

The significant assumptions employed in the most recent actuarial valuation (dated 1/1/2011) to determine funding included the use of an 8% interest rate and a salary projection of 4.5%. The pension plan uses the Entry Age Normal Actuarial Cost Method. Net assets available for benefits as of December 31, 2010 were \$3,822,068. A schedule of the Authority's annual required contributions (ARC) to the plan is as follows:

| <u>Year</u> | <u>ARC</u> | <u>% Contributed</u> |
|-------------|------------|----------------------|
| 2012        | \$ 309,526 | 100%                 |
| 2011        | 220,395    | 145%                 |
| 2010        | 40,052     | 100%                 |
| 2009        | 17,202     | 100%                 |
| 2008        | 7,166      | 100%                 |
| 2007        | 83,326     | 100%                 |
| 2006        | 98,910     | 100%                 |
| 2005        | 92,823     | 100%                 |
| 2004        | 79,697     | 100%                 |
| 2003        | 49,541     | 100%                 |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

Historical trend information, designed to provide information about the plan's progress made accumulating sufficient assets to pay benefits when due, is as follows:

|                                | (A)                             | (B)                               | (B-A)<br>(UAAL)                               | (A/B)           | (C)                | (B-A)/C                                 |
|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------------------|-----------------|--------------------|-----------------------------------------|
| ACTUARIAL<br>VALUATION<br>DATE | ACTUARIAL<br>VALUE OF<br>ASSETS | ACTUARIAL<br>ACCRUED<br>LIABILITY | UNFUNDED<br>ACTUARIAL<br>ACCRUED<br>LIABILITY | FUNDED<br>RATIO | COVERED<br>PAYROLL | UAAL AS A<br>% OF<br>COVERED<br>PAYROLL |
| 1/1/05                         | \$ 4,264,511                    | \$ 4,049,779                      | \$ (214,732)                                  | 105%            | \$ 1,065,402       | -20%                                    |
| 1/1/07                         | 5,105,407                       | 4,262,176                         | (843,231)                                     | 120%            | 1,063,399          | -79%                                    |
| 1/1/09                         | 4,528,958                       | 5,065,447                         | 536,489                                       | 89%             | 1,312,812          | 41%                                     |
| 1/1/11                         | 4,331,884                       | 5,578,758                         | 1,246,874                                     | 78%             | 1,804,894          | 69%                                     |
| 1/1/13                         | 4,469,879                       | 6,696,310                         | 2,226,431                                     | 67%             | 2,506,249          | 89%                                     |

The following shows the components of the Authority's net pension obligation (NPO) for the past three calendar years:

|                                            | 2010               | 2011                | 2012                |
|--------------------------------------------|--------------------|---------------------|---------------------|
| Annual required contribution               | \$ 40,052          | \$ 220,395          | \$ 309,526          |
| Interest on net pension obligation         | (1,764)            | (1,699)             | (9,538)             |
| Adjustment to annual required contribution | 2,575              | 2,266               | 12,415              |
| Annual pension cost (expense)              | \$ 40,863          | \$ 220,962          | \$ 312,403          |
| Contributions made                         | 40,052             | 318,960             | 309,526             |
| (Decrease) in net pension obligation       | \$ 811             | \$ (97,998)         | \$ 2,877            |
| Net Pension Obligation - January 1         | (22,044)           | (21,233)            | (119,231)           |
| Net Pension Obligation - December 31       | <u>\$ (21,233)</u> | <u>\$ (119,231)</u> | <u>\$ (116,354)</u> |

The above calculation utilized an assumed interest rate of 8% for 2010-2012. The amortization period was 15, 18, and 19 years respectively, and the amortization factor was 8.5595, 9.3719, and 9.6036 respectively.

**NOTE 9 – POST EMPLOYMENT RETIREMENT BENEFIT OTHER THAN PENSION**

In accordance with the terms of the collective bargaining agreement between the Authority and the Utility Workers Union of America, AFL-CIO, the Authority will purchase hospitalization coverage and pay the premium cost at any one time for each and every retired union employee between the ages of 62 and 65, subject to the same deductibles that apply for regular employees. As of December 31, 2012 and 2011, two union retirees were receiving post-retirement health care benefits from the Authority. The Authority finances these benefits on a pay-as-you-go basis. Amounts paid for these benefits for the years ended December 31, 2012 and 2011 were deemed immaterial.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 10 - RISK MANAGEMENT**

The 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. The risk of loss retained by the Authority is limited to deductibles under each of the policies which can range between \$2,500 and \$10,000 per item.

For its workers compensation insurance coverage, the Authority participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), which is a public entity risk pool comprised of approximately 200 governmental organizations. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals from the Pennsylvania Department of Labor and Industry. All Trust participants may be subject to a supplemental assessment/dividend based on overall experience of the participants.

Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers Compensation Act and Occupational Disease Act of each and every participant of the Trust. The Trust purchases excess insurance coverage within statutory limits. The retention for this coverage is \$750,000 per occurrence. Political subdivisions joining the Trust must remain members for a minimum of four years. Members may withdraw from the Trust after that time by giving ninety days notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdraw, the participant is responsible for their share of assessments but has no claim on any assets of the Trust.

**NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES**

**LEGAL MATTERS**

The Authority, on occasion, can be party to various legal actions arising from normal business operations. In 2011 the Clean Water Action and Three Rivers Waterkeeper filed a law suit in the United States District Court for the Western District of Pennsylvania, Civil Action No. 2:11-cv-00940-NBF, against the Authority under section 505 of the Clean Water Act, 33 U.S.C. § 1365, relating to oil and gas wastewaters allege to have been discharged by the Authority. Upon a settlement agreement signed in 2012, the plaintiffs voluntarily dismissed the suit without prejudice. The entry into the settlement agreement was not considered as an admission of any liability by the Authority and the payment of its legal fees was the sole financial cost borne by the Authority.

**PENNSYLVANIA SEWAGE FACILITIES ACT (ACT 537)**

Act 537 requires municipalities in Pennsylvania to develop and implement official sewage plans that address existing sewage disposal needs, account for future land development and provide for future sewage disposal needs. During 2009 and 2010, the Authority worked with the PA Department of Environmental Protection to develop its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. In 2011 fifteen separate contracts were awarded for construction projects related to these Plans with work expected to be completed by late summer of 2013. These Plans will require significant new treatment processes, pumping stations and interceptor lines with an associated capital cost of approximately \$54 million.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

**PENNSYLVANIA SEWAGE FACILITIES ACT (ACT 537) (Continued)**

To finance the project, the Authority has chosen to issue a series of bonds (see Note 4) at a rate of one per year, thereby enabling the Authority to step the necessary sewage rate increases over the next four to five years as opposed to a significant rate increase in any one year. In 2011 Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest. The award was issued only for Contract 2010-1 and 2010-2 which covers the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. All unused funds will be retained by PENNVEST. The other 13 contracts will be financed by the previously mentioned bond issues.

**U.S. ARMY CORPS OF ENGINEERS (COE)**

The U.S. Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result, the federal government is funding the relocation of most of the CSO structures. Construction for Phase 1 of the project was completed in 2007. Phase II began in the second half of 2009 and was completed in the first half of 2011. The Evans Avenue Overflow Line is the only remaining line that needs to be raised, however, the COE do not have any funds allocated for this line at this time. The Authority now has new outfall structures that will greatly reduce the amount of river water that flows back through the pipes and into the sewer lines. This, in return, will reduce the costs associated with treating unnecessary water.

**NOTE 12 – OBLIGATIONS IMPOSED UPON THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT BY CITY OF MCKEESPORT ORDINANCE NO. 12-20, ENACTED OCTOBER 3, 2012, WITH AN EFFECTIVE DATE OF OCTOBER 6, 2012**

Pursuant to City of McKeesport Ordinance No. 12-20, enacted into law by the City of McKeesport on October 3, 2012, with an effective date of October 6, 2012, The Municipal Authority of the City of McKeesport is required to pay the City of McKeesport an Intergovernmental Agreement Fee in lieu of the normal property and revenue assessments and to compensate the City of McKeesport for all services and increased costs the location and expansion of the Authority's treatment plant have caused at a rate of \$1,000,000 per year and with The Municipal Authority of the City of McKeesport to enter into and execute a Cooperation Agreement with the City of McKeesport according to the terms approved by the Solicitor and Mayor of the City of McKeesport and specifically incorporating such Intergovernmental Agreement Fee. Such Cooperation Agreement was thereafter prepared by the City of McKeesport; dated December 12, 2012; and entered into and executed by The Municipal Authority of the City of McKeesport. Such Cooperation Agreement requires The Municipal Authority of the City of McKeesport to pay on or before December 25<sup>th</sup> of each year a \$1,000,000 Intergovernmental Agreement Fee for the initial year and with such Authority payment to be increased by 1% for each year thereafter during the term of the Cooperation Agreement. Services include, but are not limited to: Drafting services for mapping system, Permits for sewer taps and relays, Engineering services, Procurement of right-of-ways and easements, Surveying services, Use of specialized equipment owned by City, Police, Fire, and Ambulance services, Electrical department services, and many other services rendered as stated in Agreement.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 13 – EXISTING GASB PRONOUNCEMENTS**

In June of 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, 'Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions'. This statement provides the accounting and reporting requirements for benefit plans, as well as, requires that public sector employers accrue the cost of any postretirement healthcare or similar benefits (OPEB) they may offer to employees. The Authority currently recognizes the costs of post-employment benefits on a pay-as-you-go basis (Note 9). GASB Statement No. 45 stipulates that governments account for and report the annual cost of OPEB, and the outstanding obligations and commitments related to OPEB, in the same manner as they currently do for pensions. This change to the accrued retiree healthcare provision, if any, may require the performance of an actuarial valuation. Management is aware, based on the new language that was changed in the collective bargaining agreement in 2011 that an actuarial valuation needs to be conducted to determine if the amount of the Authority's net OPEB obligation is material to the financial statements. The accompanying financial statements contain no provision for this net pension obligation.

In addition, the GASB issued Statement No. 42, 'Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries' which is effective for periods beginning after December 15, 2005. In connection with the approved Act 537 plan (Note 11), the Authority is evaluating whether significant impairments to its capital assets will occur and the potential impairment loss that would be required to be recognized in the financial statements. The Authority has not as yet determined the amount of any such loss, and accordingly no provision for an impairment loss is provided for in the accompanying financial statements.

**NOTE 14 – PENDING GASB PRONOUNCEMENTS**

In June of 2011, GASB issued 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. The provisions of this Statement are effective for the Authority's December 31, 2013 financial statements.

In March 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this Statement are effective for the Authority's December 31, 2013 financial statements.

In March 2012, GASB issued Statement No. 66, Technical Corrections, an Amendment of GASB Statements No. 10 and 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this Statement are effective for the Authority's December 31, 2013 financial statements.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 14 – PENDING GASB PRONOUNCEMENTS (Continued)**

In June 2012, GASB issued Statements No. 67 and 68, Accounting and Financial Reporting for Pensions, which amend GASB Statements Nos. 25 and 27. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of these Statements are effective for the Authority's December 31, 2014 financial statements.

The effect of implementing GASB Statement No. 65 will be to write-off the amortized amount of bond issuance costs against net position of the Authority as of January 1, 2013 totaling \$2,107,253. The effects of the implementation of the other aforementioned standards on the Municipal Authority of the City of McKeesport's financial statements have not yet been determined.

**NOTE 15 – PRIOR PERIOD ADJUSTMENT**

The prior period adjustment of <\$8,133> to the January 1, 2011 net position of the Authority represents adjustments to the Authority's prior year fixed asset and accumulated depreciation totals based on updated appraisal information.

**NOTE 16 – SUBSEQUENT EVENTS**

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041.

Management has determined that there are no additional events subsequent to December 31, 2012 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.



***SUPPLEMENTARY  
INFORMATION***

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF DETAIL OPERATING EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                                | <b>2012</b>         | <b>2011</b>         |
|------------------------------------------------|---------------------|---------------------|
| <b><u>PERSONNEL COSTS</u></b>                  |                     |                     |
| Plant Salaries                                 | \$ 2,160,123        | \$ 1,816,463        |
| Administrative Salaries                        | 385,590             | 340,647             |
| Payroll Taxes                                  | 194,846             | 164,586             |
| Pension                                        | 309,526             | 318,960             |
| Employee Benefits                              | 603,915             | 436,305             |
| <b>TOTAL PERSONNEL</b>                         | <b>\$ 3,654,000</b> | <b>\$ 3,076,961</b> |
| <b><u>PROFESSIONAL SERVICES</u></b>            |                     |                     |
| Engineering (Net of COE Reimbursements)        | \$ 172,059          | \$ 115,141          |
| Audit                                          | 6,900               | 6,302               |
| Legal                                          | 75,317              | 76,707              |
| Accounting                                     | 4,800               | 4,800               |
| Pension Services                               | 22,525              | 18,012              |
| Oxford Solutions/Delta Development             | 2,500               | 27,000              |
| Payroll Services                               | 6,592               | 5,788               |
| <b>TOTAL PROFESSIONAL SERVICES</b>             | <b>\$ 290,693</b>   | <b>\$ 253,750</b>   |
| <b><u>SEWAGE PLANT COSTS</u></b>               |                     |                     |
| Utilities                                      | \$ 303,740          | \$ 442,217          |
| Repair and Maintenance                         | 479,031             | 283,939             |
| Lease Rental Expense                           | 311,849             | 309,129             |
| Chemicals                                      | 39,681              | 44,633              |
| Lab Supplies and Analysis                      | 48,797              | 76,112              |
| Safety Program                                 | 8,058               | 13,296              |
| Vehicle Expense                                | 77,834              | 76,954              |
| Sludge Hauling                                 | 318,230             | 251,624             |
| Computers                                      | 31,608              | 23,911              |
| Uniforms                                       | 11,476              | 9,227               |
| CSO Study                                      | 42,976              | 45,819              |
| Duquesne/Dravosburg Expenses                   | 155,331             | 233,007             |
| Miscellaneous                                  | 14,022              | 7,579               |
| <b>TOTAL SEWAGE PLANT COSTS</b>                | <b>\$ 1,842,633</b> | <b>\$ 1,817,447</b> |
| <b><u>OTHER GENERAL AND ADMINISTRATIVE</u></b> |                     |                     |
| Insurance                                      | \$ 82,430           | \$ 108,470          |
| Office Supplies                                | 9,239               | 13,987              |
| Telephone                                      | 28,972              | 30,479              |
| Billing and Collecting                         | 65,501              | 56,690              |
| Travel and Education                           | 26,952              | 25,282              |
| Advertising                                    | 3,997               | 1,767               |
| Bond and Asset Management Fees                 | 64,666              | 75,967              |
| Permits/Dues/Fees                              | 9,795               | -                   |
| Miscellaneous                                  | 48,598              | 47,044              |
| <b>TOTAL OTHER GENERAL AND ADMINISTRATIVE</b>  | <b>\$ 340,150</b>   | <b>\$ 359,686</b>   |
| <b><u>INTERGOVERNMENTAL AGREEMENT FEE</u></b>  | <b>\$ 1,000,000</b> | <b>\$ -</b>         |
| <b><u>DEPRECIATION</u></b>                     | <b>\$ 1,298,320</b> | <b>\$ 1,302,372</b> |
| <b>TOTAL OPERATING EXPENSES</b>                | <b>\$ 8,425,796</b> | <b>\$ 6,810,216</b> |

The accompanying notes are an integral part of these financial statements

**The City of McKeesport, Pennsylvania  
And  
The Municipal Authority of the City McKeesport**

**Appraisal Work Papers  
As of September 2016**

**Income Approach  
Financials 2013**

**AUS Consultants  
Suite 201  
8555 West Forest Home Avenue  
Greenfield, Wisconsin 53228  
Office Telephone: 414-529-5755  
J. Weinert's Cell: 414-698-8371  
J. Weinert's E-Mail: [weinertj@auswest.net](mailto:weinertj@auswest.net)**

**Operating Data 2013**

**2013 LARGEST CUSTOMERS**

| <b>Customer</b>                                        | <b>Consumption</b> | <b>2013 Annual Revenues</b> | <b>% of Total 2013 Revenues</b> |
|--------------------------------------------------------|--------------------|-----------------------------|---------------------------------|
| UPMC Health System #11                                 | 25,700             | \$297,924.00                | 5.4%                            |
| McKeesport Housing Auth (23-41 Crawford Village)       | 7,412              | \$84,878.28                 | 1.5%                            |
| McKeesport Housing Auth (1-14 Harrison Village)        | 7,210              | \$83,910.21                 | 1.5%                            |
| Midtown Plaza Apts./7105                               | 6,825              | \$71,657.20                 | 1.3%                            |
| Dravosburg Housing Auth (250 Scott Dr)                 | 7,100              | \$65,299.50                 | 1.2%                            |
| U.S. Steel                                             | 3,796              | \$44,586.62                 | 0.8%                            |
| Guy Deluca (Kane Hospital)                             | 3,544              | \$40,563.58                 | 0.7%                            |
| McKeesport Housing Auth (6 <sup>th</sup> St & Huey St) | 2,886              | \$33,651.36                 | 0.6%                            |
| McKeesport Housing Auth (64 Crawford Village)          | 2,809              | \$32,210.83                 | 0.6%                            |
| McKeesport Area High School                            | 2,637              | \$30,715.44                 | 0.6%                            |
| <b>TOTAL</b>                                           | <b>69,919</b>      | <b>\$785,397.02</b>         | <b>14.3%</b>                    |

Source: Authority Officials

**SEWER SYSTEM RATES**

**Sewage Service Rates Per Quarter**

**Size Charge/1,000 Consumed Gallons allowed for min.**

2007 1,000 \$3.16

2008 1,000 \$3.70

2009 1,000 \$4.44

2010 1,000 \$5.30

2011 1,000 \$6.10

2012 1,000 \$6.10

7/1/2013 1,000 \$7.85\*

1/1/2014 1,000 \$7.95\*\*

\* Rate approved at 10-31-12 Authority Board Meeting

\*\* Rate approved at 10-22-13 Authority Board Meeting

**Trends in Customer Breakdown – Sewer System**

**Year**

**Historical Number of Customers**

2001 19,987\*

2002 19,987\*

2003 19,987\*

2004 19,142\*

2005 19,070\*

2006 19,180\*

2007 19,225\*

2008 19,225\*

2009 19,225\*

2010 18,985~

2011 18,985~

2012 21,556~

2013 22,007~

\* Number provided by the communities in their annual waste load management report

~Number provided by Service Community billing departments

Source: Authority Officials

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF MCKEESPORT**

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

**THE MUNICIPAL AUTHORITY OF
THE CITY OF MCKEESPORT**
MCKEESPORT, PENNSYLVANIA

FINANCIAL STATEMENTS
WITH REPORT BY
CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
MCKEESPORT, PENNSYLVANIA

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Mark C. Turnley

Certified Public Accountant

293 Pinney Street
Rochester, Pennsylvania 15074
(724) 371-0887
FAX (724) 709-8596

**To the Board of Directors
Municipal Authority of the City of McKeesport**

Independent Auditor's Report

Report on Financial Statements

I have audited the accompanying financial statements of the Municipal Authority of the City of McKeesport as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Municipal Authority of the City of McKeesport'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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Municipal Authority of the City of McKeesport as of December 31, 2013 and 2012, 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

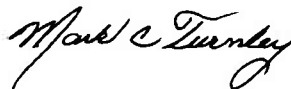
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iii-xvi 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 Municipal Authority of the City of McKeesport's basic financial statements. The supplementary information (statement of detail operating expenses) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information (statement of detail operating expenses) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records use 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 (statement of detail operating expenses) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Mark C. Turnley, CPA

September 5, 2014
Rochester, Pennsylvania

THE MUNICIPAL AUTHORITY OF THE CITY OF McKEESPORT

Management's Discussion and Analysis For the Years Ended December 31, 2013 and 2012

This section of the Authority's annual financial report represents our discussion and analysis of the Authority's financial performance during the years ended December 31, 2013 and 2012. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. We encourage readers to consider the information presented here in conjunction with the information provided in the Authority's financial statements.

OPERATING AGREEMENTS

The Authority owns and operates three wastewater treatment facilities pursuant to Agreements with each of the twelve communities it serves. The Authority has Agreements to provide wastewater treatment services with the City of McKeesport, the City of Duquesne, the Borough of Liberty, the Borough of Port Vue, the Borough of East McKeesport, the Township of Elizabeth, the Borough of Glassport, the Borough of White Oak, the Borough of Versailles, the Borough of Lincoln, the Borough of Dravosburg, and the Township of North Versailles. The Authority's Board of Directors establishes rates which are designed to recover the cost of providing services. The rates are based upon the gallons of water used by the communities. The Authority bills the municipalities on a quarterly basis for services provided to the communities' residents at the established rate. The municipalities are responsible for setting a rate for customers within their municipalities and for billing and collecting from those customers. The Authority began conducting billing services for Versailles Borough in March of 2009 in addition to the systems that it owns; McKeesport, Duquesne & Dravosburg.

The City of McKeesport sold its Collection System to the Authority effective January 1, 2009 under a lease purchase agreement. Since that date Authority personnel have performed routine maintenance and repairs to the system.

On November 8, 2010 the City of Duquesne sold its wastewater treatment plant and collection system to the Authority for \$3.8 million. Under the terms of the agreement the City of Duquesne used the vast portion of the funds to pay off the balance of the sewage plant's \$3.2 million bond. A combined sewer overflow (CSO) long term control plan will be developed over the next year. Once the plan has been approved by the PA DEP, a new permit will be issued to the facility. In January of 2011 the Authority purchased the Dravosburg Wastewater Treatment Facility along with it corresponding collection system from the Borough of Dravosburg for \$330,000. The CSO Long Term Control Plan will be joined with the Duquesne Plan to develop a joint plan for both systems.

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OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include only those of the Authority which is a component unit of the City of McKeesport, Pennsylvania. The financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. They are designed to provide a broad overview of the Authority's finances, in a manner similar to a private-sector business. All of the Authority's activities are reported in the statements except for activities associated with the pension fund because those funds are not available to support the Authority's own programs.

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference of the two reported as Net Position. Net Position is reported as one of three categories: net investment in capital assets; restricted; or unrestricted.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's Net Position changed during the year. All of the changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected rates and earned but unused vacation leave).

These two financial statements report the Authority's Net Position and the changes in the Net Position. Net Position, which represents the difference between assets and liabilities, are one measure of the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's Net Position may serve as a useful indicator of whether its financial position is improving or deteriorating.

Notes to the financial statements provide additional information that is essential to a full understanding of the information proved in these financial statements. The financial statements and accompanying notes can be found in the financial section of this report.

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FINANCIAL HIGHLIGHTS

In 2013 the Authority raised their sewage processing rate to \$7.85/1000 gallons consumed, this occurred on July 1st 2013. This rate increase was intended for the financing of the Sewage Treatment Plant Expansion, two new pump stations, and the revamping of three other pump stations. This rate increase occurred soon after the bond and loan payments commenced.

Bids for the Act 537 Plan Expansion Project were opened on March 7, 2011 and fifteen (15) contracts were awarded on May 26, 2011.

The Authority was awarded PennVest funding on April 20, 2011. The funding consisted of \$17,239,375 in the form of a grant and an equal amount in the form of a one (1.0) percent thirty (30) year loan. These funds are to apply only to the two contracts pertaining to the construction relating to the upgrade of the wastewater treatment facility itself. It cannot be used for the upgrades to the pump stations or lines. The cost of these other contracts not covered by Pennvest funds will be funded by the bond revenues.

The Tapping Fee (Capacity fee) remained unchanged in 2013 at a rate of \$1,750 per Equivalent Dwelling Unit ("EDU"). An EDU, equivalent dwelling unit, is the average amount of wastewater that each household in the service area discharges each day. The Authority calculates an EDU to be 236 gallons per day. During 2012 there were seventeen (17) new commercial taps purchased within the Authority's service area. The balance of cash accumulated from tapping fees (The Tapping Fee Account), reserved by the Board for capital projects, at December 31, 2013 was \$349,862.

On December 31, 2013, total assets and deferred outflow of resources were \$108,462,295 and total liabilities were \$93,822,626 yielding a net position of \$14,639,669. General operations resulted in an increase in total Net Position of \$757,230 for calendar year 2013.

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FINANCIAL HIGHLIGHTS (Continued)

For the year 2013, 4.161 billion gallons of wastewater were treated at the wastewater facility. Approximately 1.232 billion gallons of water were consumed in 2013 by the Authority's customers and paid for by their user fees. By comparison, 29.6% of the wastewater treated was billable down from 32.2% in 2012. The remaining 2.929 billion gallons of wastewater, up from 2.495 billion gallons from 2012, entered the system from rainwater, groundwater, streams and rivers, water line breaks, firefighting efforts, etc. The 2013 annual rainfall increased from the previous year; 39.54 inches in 2012 to 45.49 inches in 2013.

Total Operating Revenues were \$11,081,949, an increase of \$213,477, or 2% over 2012, primarily caused by the rate increase that occurred on July 1st of 2013.

Operating Expenses were \$7,947,913, an increase of \$522,117, or 7% over 2012. The largest increases came from additional personnel and related employee benefits and increased utility costs.

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FINANCIAL ANALYSIS

The following condensed financial statements and other selected information serve as financial data and indicators to help the Authority manage, monitor, and plan.

Condensed Statement of Net Position

	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>INCREASE <DECREASE></u>
Current & Restricted Assets	\$ 11,255,435	\$ 26,654,663	\$ (15,399,228)
Capital Assets - net of depreciation	93,089,514	81,820,140	11,269,374
Other Assets	2,542,375	4,389,625	(1,847,250)
Deferred Outflows of Resources	1,574,971	257,710	1,317,261
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 108,462,295</u>	<u>\$ 113,122,137</u>	<u>\$ (4,659,843)</u>
Current Liabilities	\$ 4,358,510	\$ 3,331,427	\$ 1,027,083
Long-term Liabilities	89,464,116	93,594,054	(4,129,938)
TOTAL LIABILITIES	<u>\$ 93,822,626</u>	<u>\$ 96,925,481</u>	<u>\$ (3,102,855)</u>
Net Investment in Capital Assets	\$ 5,892,168	\$ 3,902,258	\$ 1,989,910
Restricted for Debt Service	6,089,857	5,588,640	501,217
Unrestricted	2,657,644	6,705,758	(4,048,114)
TOTAL NET POSITION	<u>\$ 14,639,669</u>	<u>\$ 16,196,656</u>	<u>\$ (1,556,987)</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>INCREASE <DECREASE></u>
Operating Revenues	\$ 11,081,949	\$ 10,868,472	\$ 213,477
Operating Expenses	7,947,913	7,425,796	522,117
NET OPERATING INCOME	<u>\$ 3,134,036</u>	<u>\$ 3,442,676</u>	<u>\$ (308,640)</u>
Non-Operating Revenues	\$ 2,666,766	\$ 11,501,907	\$ (8,835,141)
Non-Operating Expenses	(5,043,482)	(4,587,820)	(455,662)
NET NON-OPERATING	<u>\$ (2,376,716)</u>	<u>\$ 6,914,087</u>	<u>\$ (9,290,803)</u>
CHANGE IN NET POSITION	<u>\$ 757,320</u>	<u>\$ 10,356,763</u>	<u>\$ (9,599,443)</u>

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FINANCIAL ANALYSIS (Continued)

Overall, the Authority's financial condition remained strong in 2013. Most of the ten service communities are up to date with their payments with the exception of East McKeesport which continues to lag one quarter behind due to the length of time it takes to get their consumption numbers from the water authority. The addition of the McKeesport Collection System in 2009 and the Duquesne Wastewater Treatment Plant and System in 2010 has greatly expanded the scope of the Authority's influence and responsibilities. Grant proceeds of \$2,593,712 were received in 2013 from PENNVEST for the wastewater treatment facility project.

The purchase of the Borough of Dravosburg's plant and system in 2011, as well as, the expressed interest of at least three of the Authority's service communities to sell their systems to the Authority bodes well for the future success of the Authority.

The following table shows the Authority's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues. The effect of the loss in well water processing fees and the addition of the 'Intergovernmental Agreement Fee' in 2012 is reflected in the decrease in operating cash as a percentage of operating revenues.

	2013	2012	Variance
Total operating revenues	\$11,081,949	\$ 10,868,472	\$213,477
Net cash provided by operations	\$4,373,072	\$4,470,268	(\$97,196)
Operating cash as a percentage of operating revenues	39.5%	41.1%	(45.5)%

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CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

On December 31, 2013, the Authority had \$93,089,514 invested in capital assets, including land, infrastructure, buildings, plant and office machinery and equipment, and vehicles net of depreciation. This amount represents a net increase (including additions, deletions and depreciation) of \$11,269,374, or approximately 13.8% from last year.

The Authority had approximately \$12,596,659 in capital additions during the 2013 year, mainly comprised of 1) costs incurred of \$12,158,968 for the Act 537 system improvements and upgrades including WWTP expansion, pump station construction, sanitary sewer construction and force main construction, and 2) \$342,875 for emergency repair at Ravine Street and White Street.

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

	<u>2013</u>	<u>2012</u>	<u>INCREASE <DECREASE></u>
Land	\$ 61,132	\$ 61,132	\$ -
Infrastructure	33,502,793	33,159,918	342,875
Buildings	10,159,726	10,141,872	17,854
Plant Machinery & Equipment	7,993,262	7,951,625	41,637
Office Machinery & Equipment	127,306	114,890	12,416
Vehicles and Equipment	1,100,324	1,112,547	(12,223)
	<u>\$ 52,944,543</u>	<u>\$ 52,541,984</u>	<u>\$ 402,559</u>
Accumulated Depreciation	(16,378,170)	(15,086,018)	(1,292,152)
	<u>\$ 36,566,373</u>	<u>\$ 37,455,966</u>	<u>\$ (889,593)</u>
Construction in Progress	56,523,141	44,364,174	12,158,967
	<u>\$ 93,089,514</u>	<u>\$ 81,820,140</u>	<u>\$ 11,269,374</u>

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CAPITAL ASSET AND DEBT ADMINISTRATION

DEBT ADMINISTRATION

As of December 31, 2013, the Authority had total long-term debt outstanding of \$90,947,988. The Authority's debt obligations are comprised of 1) seven sewer revenue bonds, 2) one sewer revenue note, 3) one PENNVEST note, 4) two capital lease obligations with PNC Equipment Finance, 4) two capital lease obligations with Ally Financial, and 5) a purchase agreement with the Borough of Dravosburg as follows:

In October of 2008, the Authority issued Sewer Revenue Bonds - Series of 2008 under the terms of a First Supplemental Trust Indenture dated October 2, 2008, by and between the Authority and the Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition facilities required for the proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding of a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 5.2 and 5.45%. The bonds provide for early redemption options as detailed in the official statement of issue. In July of 2012, Sewer Revenue Bonds - Series B of 2012 were issued for the purpose of advance refunding a portion (\$4,085,000) of Sewer Revenue Bonds – Series of 2008. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2013 is \$5,575,000.

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 in the amount of \$10,000,000 for the purpose of 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2013 is \$9,835,000.

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CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

DEBT ADMINISTRATION: (Continued)

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds – Series of 2013 were issued for the purpose of advance refunding a portion (\$11,215,000) of Sewer Revenue Bonds – Series of 2010, leaving a balance at December 31, 2013 of \$13,780,000. Interest rates range between 2.5 and 5.0% and the bonds are scheduled to mature on December 15, 2041.

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds – Series of 2013 were issued for the purpose of advance refunding a portion (\$500,000) of Sewer Revenue Bonds – Series of 2011, leaving a balance at December 31, 2013 of \$23,685,000. Interest rates range between 2.0 and 4.25% and the bonds are scheduled to mature on December 15, 2030.

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036. The remaining principal balance on the bond issue as of December 31, 2013 is \$5,735,000.

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CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

DEBT ADMINISTRATION: (Continued)

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds - Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033. The remaining principal balance on the bond issue as of December 31, 2013 is \$4,645,000.

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds - Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041. The remaining principal balance on the bond issue as of December 31, 2013 is \$13,715,000.

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. The Note is scheduled to mature on February 2, 2014. As of December 31, 2013, the outstanding balance on this Note obligation is \$93,954.

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CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

DEBT ADMINISTRATION: (Continued)

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$14,050,084 on the loan as of December 31, 2013. The outstanding balance on the loan as of December 31, 2013 was \$13,694,905.

In July of 2010, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Vactor 2100 on a 2009 International Cab and Chassis for \$328,368. The terms of the lease call for 5 annual payments of \$71,578.41 at an annual interest rate of 4.5% with a \$1 buy-out option at the completion of the lease term. The lease is scheduled to expire in August of 2014. The remaining principal balance on the lease as of December 31, 2013 is \$68,495.

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016. The remaining principal balance on the lease as of December 31, 2013 is \$97,064.

In September of 2012, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Tahoe for \$34,995. The terms of the lease call for 3 annual payments of \$12,444.72 at an annual interest rate of 6.84%. The lease is scheduled to expire in September of 2014. The remaining principal balance on the lease as of December 31, 2013 is \$11,648.

In March of 2013, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Silverado for \$18,501.80. The terms of the lease call for 3 annual payments of \$6,579.50 at an annual interest rate of 6.84%. The lease is scheduled to expire in March of 2015. The remaining balance on the lease as of December 31, 2013 is \$11,922.

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CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

DEBT ADMINISTRATION: (Continued)

On December 28, 2010, the Authority entered into agreement with the Borough of Dravosburg for the purchase of the Borough's sanitary sewer system and wastewater treatment plant in the amount of \$330,000 effective January 1, 2011. The terms of the agreement call for the advance payment of \$180,000 in 2011 with two subsequent payments of \$75,000 on January 1, 2012 and 2013 respectively. The final payment of \$75,000 was made to the Borough of Dravosburg in 2013.

The Authority is scheduled to make principal and interest payments on their total debt of approximately \$4,889,804 during the 2014 calendar year. The principal and interest payment to be paid in 2014 do not include payments on the PENNVEST note as it is interim amortized at December 31, 2013.

SUBSEQUENT EVENT

In January of 2014, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2014 under the terms of a Trust Indenture dated February 19, 2014, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$6,410,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2008, 2) fund construction and/or acquisition of capital additions, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at interest rates ranging between 1.0% and 4.65%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

GENERAL TRENDS AND SIGNIFICANT EVENTS

Population in the Authority's service area continues to remain fairly constant, with a decrease in the population of the City of McKeesport being offset by increases in other communities such as White Oak Borough, North Versailles Township and Elizabeth Township. It has been estimated that the population in the service area will increase at a rate of 90 persons per year for the next five years.

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GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)

Throughout the year the Authority continued to work with the PA Department of Environmental Protection to implement its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. These plans were approved in July of 2007. The project design work was completed and submitted to the PA Department of Environmental Protection for review in July of 2009 and approved in July of 2010. Fifteen construction projects were put out for bid in February of 2011 and awarded in May. The project involves significant new treatment processes, pumping stations & interceptor lines with an associated capital cost of approximately sixty-two (62.5) million dollars. In order to prevent a huge increase in the sewer rates the Authority has chosen to issue a series of bonds at a rate of one per year. By doing this the Authority has been able to step the necessary rate increases over a period of several years. To do this, a ten (10) million dollar bond was issued in 2009 and the rates were increased by \$0.74/1000 gallons, or 20.5%, a fourteen (14) million dollar bond was issued in 2010 which increased the rates \$0.86/1000 gallons, or 19.4%, a twenty-five (25) million dollar bond was issued in 2011 raising the rates \$0.80/1000 gallons, or 15.1%, two bonds were issued in 2012 totaling eleven (11) million dollars with no rate increase, and finally a fourteen (14) million dollar bond was issued in 2013 raising the rates \$1.75/1000 gallons, or 28%.

The US Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result the federal government funded the relocation of most of the CSO structures. Construction for Phase 1 of the project was completed in 2007 and phase (II) of the project was completed in 2010. One remaining outfall, Evans Avenue, remains to be raised to complete the project, however funding was not available in 2011 and currently still remains unfunded. The Authority's new outfall structures have greatly reduced the amount of river water that flows back through the pipes and into the sewer lines. This in return has reduced the costs associated with treating unnecessary water.

**THE MUNICIPAL AUTHORITY OF
THE CITY OF McKEESPORT**
Management's Discussion and Analysis
For the Years Ended December 31, 2013 and 2012

GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)

As was noted earlier in this report, in 2009, the Authority acquired the sewage collection system from the City of McKeesport. The acquisition of the sewer system included more than 550,000 feet of sewer lines ranging in size from 6" to 42" and two pumping stations. The acquisition of the Duquesne plant and system in 2010 added an additional 157,880 feet of sewer lines and 557 manholes to the Authority's care. In order to maintain this vast system, five new employees were hired in 2011 to complete a 13 man crew dedicated to maintaining and repairing the lines, manholes, catch basins and pumping stations. The addition of the Dravosburg system in 2011 along with the Authority's stepped up efforts to map all of the lines, manholes and catch basins on its Geographic Information System (GIS) software program resulted in an additional four new employees in 2012.

With the acquisition of the Duquesne & Dravosburg systems, the Authority also assumed the corresponding sewage billing responsibilities. Three additional employees were hired in 2011 to assist in the efficient running of the billing department.

CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, 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 customers of the Municipal Authority of the City of McKeesport. If you have questions about this report or wish to request additional financial information, please contact the Authority offices at 100 Atlantic Avenue, McKeesport, PA 15132, (412)-673-8276.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
STATEMENT OF NET POSITION
DECEMBER 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 1,015,111	\$ 2,779,272
Cash and Cash Equivalents - Restricted	114,693	7,506,622
Sewage Service Receivable	1,192,983	1,159,985
Delinquent Sewage Service Receivable - City of McKeesport	192,458	202,585
Accrued Sewage Service (Unbilled)	1,153,934	916,801
Deposits	3,000	3,000
TOTAL CURRENT ASSETS	<u>\$ 3,672,179</u>	<u>\$ 12,568,265</u>
RESTRICTED ASSETS:		
Investments	\$ 10,125,631	\$ 16,368,769
TOTAL RESTRICTED ASSETS	<u>\$ 10,125,631</u>	<u>\$ 16,368,769</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land	\$ 61,132	\$ 61,132
Infrastructure	33,502,793	33,159,918
Buildings	10,159,726	10,141,872
Plant Machinery and Equipment	7,993,262	7,951,625
Office Machinery and Equipment	127,306	114,890
Vehicles and Equipment	1,100,324	1,112,547
	<u>\$ 52,944,543</u>	<u>\$ 52,541,984</u>
Less: Accumulated Depreciation	(16,378,170)	(15,086,018)
	<u>\$ 36,566,373</u>	<u>\$ 37,455,966</u>
Construction in Progress	56,523,141	44,364,174
NET PROPERTY, PLANT AND EQUIPMENT	<u>\$ 93,089,514</u>	<u>\$ 81,820,140</u>
OTHER ASSETS:		
Unamortized Bond Issue Costs	\$ -	\$ 2,107,253
TOTAL OTHER ASSETS	<u>\$ -</u>	<u>\$ 2,107,253</u>
TOTAL ASSETS	<u>\$ 106,887,324</u>	<u>\$ 112,864,427</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Interest on Advance Refunding	\$ 1,574,971	\$ 257,710
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,574,971</u>	<u>\$ 257,710</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 108,462,295</u>	<u>\$ 113,122,137</u>

The accompanying notes are an integral part of these financial statements

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
STATEMENT OF NET POSITION
DECEMBER 31,
(CONTINUED)

	<u>2013</u>	<u>2012</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES:		
Accounts Payable	\$ 678,020	\$ 1,100,954
Retainage Payable	1,924,418	-
Accrued Payroll and Taxes	92,370	90,925
Sewage Service Deposits	5,950	6,300
Accrued Interest	140,223	140,884
Due to Dravosburg Borough - Current Portion	-	75,000
Capital Leases - Current Portion	117,529	107,364
Current Portion of Bonds Payable	1,400,000	1,810,000
TOTAL CURRENT LIABILITIES	<u>\$ 4,358,510</u>	<u>\$ 3,331,427</u>
LONG-TERM LIABILITIES:		
Bonds Payable - Long Term Portion (Net)	\$ 75,051,396	\$ 73,740,088
Pennvest Loan Payable	13,694,905	11,456,372
Sewer Revenue Note 2011	93,954	8,092,423
Capital Leases - Long Term Portion	71,600	177,202
Net OPEB Liability	407,849	-
Compensated Absences	144,412	127,969
TOTAL LONG-TERM LIABILITIES	<u>\$ 89,464,116</u>	<u>\$ 93,594,054</u>
TOTAL LIABILITIES	<u>\$ 93,822,626</u>	<u>\$ 96,925,481</u>
NET POSITION:		
Net Investment in Capital Assets	\$ 5,892,168	\$ 3,902,258
Restricted for Debt Service	6,089,857	5,588,640
Unrestricted	2,657,644	6,705,758
TOTAL NET POSITION	<u>\$ 14,639,669</u>	<u>\$ 16,196,656</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 108,462,295</u>	<u>\$ 113,122,137</u>

The accompanying notes are an integral part of these financial statements

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Sewage Treatment Services	\$ 10,863,476	\$ 10,676,796
Sludge Hauling	97,750	97,501
Tap Fees and Permits	21,250	30,800
Miscellaneous	99,473	63,375
	<u> </u>	<u> </u>
TOTAL OPERATING REVENUES	\$ 11,081,949	\$ 10,868,472
<u>OPERATING EXPENSES</u>		
Personnel Costs	\$ 4,061,889	\$ 3,654,000
Professional Services	308,558	290,693
Sewage Plant Costs	1,861,463	1,842,633
Other General and Administrative	398,879	340,150
Depreciation	1,317,124	1,298,320
	<u> </u>	<u> </u>
TOTAL OPERATING EXPENSES	\$ 7,947,913	\$ 7,425,796
NET OPERATING INCOME BEFORE NON-OPERATING REVENUE AND EXPENSE	\$ 3,134,036	\$ 3,442,676
<u>NON-OPERATING REVENUE AND (EXPENSE)</u>		
Interest Income	\$ 73,054	\$ 45,536
PENNVEST Grant Proceeds	2,593,712	11,456,371
Intergovernmental Agreement Fee	(1,010,000)	(1,000,000)
Interest on Long-Term Debt	(3,607,211)	(3,483,798)
Bond Issue Costs Series of 2013	(416,110)	-
Loss on Disposal of Fixed Assets	(10,161)	-
Amortization of Bond Issue Costs	-	(104,022)
	<u> </u>	<u> </u>
TOTAL NON-OPERATING REVENUE AND (EXPENSE)	\$ (2,376,716)	\$ 6,914,087
INCREASE <DECREASE> IN NET POSITION	\$ 757,320	\$ 10,356,763
NET POSITION - JANUARY 1,	16,196,656	5,839,893
Prior Period Adjustment	<u>(2,314,307)</u>	<u>-</u>
NET POSITION - DECEMBER 31,	\$ 14,639,669	\$ 16,196,656

The accompanying notes are an integral part of these financial statements

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31.

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Sewage Billings	\$ 10,821,595	\$ 10,950,816
Cash Paid to Employees for Salaries and Benefits	(3,843,206)	(3,617,835)
Cash Paid to Suppliers for Goods and Services	(2,605,317)	(2,862,713)
Net Cash Provided by Operating Activities	<u>\$ 4,373,072</u>	<u>\$ 4,470,268</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
(Increase) Decrease in Restricted Assets	\$ 6,243,138	\$ 13,313,773
Proceeds from Bond Issues	13,715,000	10,640,000
Proceeds from Sewer Revenue Note	4,612,761	19,796,676
Proceeds from Pennvest Loan	2,593,712	11,456,372
Grant Proceeds	2,593,712	11,456,371
Proceeds from Capital Lease	18,502	196,824
Principal Payments - Dravosburg	(75,000)	(75,000)
Bond Discount and Closing Costs	(643,044)	(601,032)
Principal Payments on Long-Term Debt	(25,670,349)	(27,633,278)
Interest Paid on Long-Term Debt	(3,565,061)	(3,471,709)
Interest Deposited with Escrow Agent for Advance Refunding	(1,356,831)	-
Purchase of Property and Equipment (Net of Refund)	(11,093,756)	(32,498,478)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>\$ (12,627,216)</u>	<u>\$ 2,580,519</u>
<u>CASH FLOWS FROM NON CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Intergovernmental Agreement Fee	\$ (1,010,000)	\$ (1,000,000)
Insurance Reimbursement	35,000	-
Net Cash (Used for) Non Capital and Related Financing Activities	<u>\$ (975,000)</u>	<u>\$ (1,000,000)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Income Received	\$ 73,054	\$ 45,536
Net Cash Provided By Investing Activities	<u>\$ 73,054</u>	<u>\$ 45,536</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (9,156,090)	\$ 6,096,323
CASH AND CASH EQUIVALENTS - JANUARY 1	10,285,894	4,189,571
CASH AND CASH EQUIVALENTS - DECEMBER 31	<u>\$ 1,129,804</u>	<u>\$ 10,285,894</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income	\$ 3,099,036	\$ 3,442,676
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,317,124	1,298,320
Change in Current Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(260,004)	84,094
Increase (Decrease) in Accounts Payable	(1,419)	(390,087)
Increase (Decrease) in Accrued Expenses	1,445	24,876
Increase (Decrease) in Sewage Service Deposits	(350)	(900)
Increase (Decrease) in Net OPEB Obligation	200,795	-
Increase (Decrease) in Accumulated Compensated Absences	16,445	11,289
Net Cash Provided by Operating Activities	<u>\$ 4,373,072</u>	<u>\$ 4,470,268</u>

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

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipal Authority of the City of McKeesport (the Authority) is a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipality Authorities Act of 1945. The Act was repealed by the Act 22 of June 19, 2001 (P.L. 287, No. 22). The Council of the City of McKeesport (the City) created the Authority on November 29, 1949 under an order from the Sanitary Water Board of the Commonwealth of Pennsylvania. The Authority was created for a period of 50 years to end December 5, 1999, and was subsequently extended through December 5, 2057. The Authority was created for the purpose of acquiring, holding, constructing, improving, maintaining and operating, owning and leasing (either in capacity as lessor or lessee) certain projects. These projects include sewers, sewer systems or parts thereof, sewage treatment works, also including the acquisition of land for sewage treatment works and pumping stations, and all other necessary facilities and apparatus that the Board of Directors may authorize as necessary for the project. The Authority provides waste collection and treatment services, under agreement, for the following municipalities:

City of McKeesport	White Oak Borough
Port Vue Borough	Liberty Borough
East McKeesport Borough	Elizabeth Authority
Glassport Borough	Lincoln Borough
Versailles Borough	North Versailles Borough
City of Duquesne	Dravosburg Borough

Per the terms of these agreements, the Authority is the provider of sewage treatment and disposal service to the above municipalities, and these municipalities have agreed to construct and maintain such sewers, interceptors and pumping stations as is necessary to bring the sewage and industrial waste to a point where it flows into the interceptors of the Authority.

The five-members of the Authority Board of Directors are appointed by the members of Council of the City of McKeesport. Revenue or other cash received must be disbursed in accordance with provisions of the Trust Indentures dated October 1, 2006, as amended and supplemented by the First Supplemental Trust Indenture dated as of October 2, 2008, as amended and supplemented by the Second Supplemental Trust Indenture dated as of December 1, 2009, as amended and supplemented by the Third Supplemental Trust Indenture dated as of December 28, 2010, as amended and supplemented by the Fourth Supplemental Trust Indenture dated August 31, 2011, as amended and supplemented by the Fifth Supplemental Trust Indenture dated January 5, 2012, as amended and supplemented by the Sixth Supplemental Trust Indenture dated August 23, 2012, and as amended and supplemented by the Seventh Supplemental Trust Indenture dated January 16, 2013 by and between the Authority and the Bank of New York Mellon Trust Company as trustee, securing the Sewer Revenue Bonds Series of 2008, 2009, 2010, 2011, 2012, 2012B, and 2013 respectively.

The financial statement of the Municipal Authority of the City of McKeesport 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). During 2013, the Authority adopted the provisions of Government Accounting Standards Board (GASB) No. 65, 'Items Previously Reported as Assets and Liabilities' and GASB No. 66, 'Technical Corrections, an Amendment of GASB Statements No. 10 and 62'. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Municipal Authority of the City of McKeesport consists of all funds, departments, boards and agencies that are not legally separate from the Authority. As defined by GASB No. 14, component units are legally separate entities that 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 these criteria, the Municipal Authority of the City of McKeesport has no component units.

BASIS OF ACCOUNTING

The Authority is accounted for as an enterprise fund since its operations are financed and operated in a manner similar to the private sector. 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

For the purposes of the statement of cash flows, 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. Cash and cash equivalents – restricted represents the balance of PNC Sewer Revenue Note funds (Note 4), and funds received from the Pennsylvania Infrastructure Investment Authority (Note 4) restricted for the Authority's Waste Water Treatment Plant (WWTP) expansion project.

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.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS (Continued)

In addition, the Board of Directors can invest the Authority's sinking funds as authorized for local governments in the Local government Unit Debt Act, 53 Pa.C.S. 8224. Investment of the Authority's restricted assets are made pursuant to and restricted by the aforementioned Trust Indentures securing the Sewer Revenue Bonds Series of 2008, 2009, 2010, 2011, 2012, 2012B, and 2013. Investments for 2013 and 2012 (See Restricted Assets) include Dreyfus Government cash management agency fund shares, certificates of deposit, corporate notes, fixed income investments with the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. Investments are stated at fair value. The Authority is in compliance with these restrictions as of December 31, 2013 and 2012.

RESTRICTED ASSETS

In accordance with the provisions of the aforementioned Trust Indentures, by and between the Bank of New York Mellon Trust Company and the Municipal Authority of the City of McKeesport, which secure the Authority's Sewer Revenue Bonds, the Authority is obligated to restrict certain funds to pay for construction related expenditures and to meet debt service requirements. These funds are reflected in Exhibit A as 'restricted assets' and are further detailed in Note 2.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at net realizable value. Receivables are mainly comprised of billed and unbilled sewage services rendered to the participating municipalities as herein described in Note 1. The Authority does not maintain an allowance for doubtful accounts, as management estimates that uncollectible amounts at year-end, if any, would not materially affect the financial position of the Authority.

INVENTORY

The Authority does not maintain a physical inventory of materials, chemicals, and other supplies. Management estimates that inventory values during the year are minimal for cost control purposes. Accordingly, management is of the opinion that any value that existed at December 31, 2013 and 2012 would not materially affect the financial position of the Authority.

PROPERTY, PLANT, AND EQUIPMENT

The Authority records property, plant and equipment purchases at cost. Property, plant and equipment include major betterments that extend the economic useful life of the assets affected. The Authority maintains a capitalization threshold of \$500. Routine repair and maintenance costs are charged to operations as incurred. Depreciation expense is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Infrastructure	50 Years
Buildings	40 Years
Machinery and Equipment	3-20 Years
Vehicles	7-10 Years

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT, AND EQUIPMENT (Continued)

Depreciation expense for the year ended December 31, 2013 and 2012 was \$1,317,124 and 1,298,320 respectively. Construction in progress represents funds paid toward the following Authority projects:

	<u>12/31/2013</u>	<u>12/31/2012</u>
Act 537 System Improvements Project:		
Engineering and Other Professional Fees	\$ 4,107,989	\$ 3,704,232
WWTP Expansion Project	30,827,989	24,937,598
Pump Stations Construction	17,419,656	13,987,159
East/West Shore Sanitary Sewer Construction	1,506,357	1,420,313
Rotary Press Project	867,570	-
River Crossing Force Main	1,793,580	314,872
	<u>\$ 56,523,141</u>	<u>\$ 44,364,174</u>

NET POSITION

Net Position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy Authority obligations. Net Position is classified as follows:

- 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 Net Position – This component of Net Position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.
- Unrestricted – Consists of all other Net Position that does not meet the definition of 'restricted' or 'net investment in capital 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.

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.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Municipal Authority of the City of McKeesport, these revenues are sewer user charges, sludge hauling fees, tap-in fees, and other miscellaneous revenues generated from operating activities. Operating expenses are the necessary costs incurred to operate the Authority. Non-operating revenues of the Authority consist of grant and interest revenue. Non-operating expenses consist of interest on long-term debt and bond issuance cost amortization expense.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

CASH DEPOSITS:

At December 31, 2013 and 2012, the Authority had the following bank balances and carrying value on its' cash and cash equivalent accounts:

	--- December 31, 2013 ---		--- December 31, 2012 ---	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Cash and Cash Equivalents	\$ 1,140,937	\$ 1,129,804	\$ 10,266,758	\$ 10,285,894
Certificates of Deposit (Shown as part of Restricted Assets)	3,385,070	3,385,070	3,139,331	3,139,331
	\$ 4,526,007	\$ 4,514,874	\$ 13,406,089	\$ 13,425,225

The difference between the bank balance and the carrying value represents 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.

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, 2013 and 2012, \$890,937 and \$666,257 respectively of the Authority's bank balance totals are exposed to custodial credit risk as these amounts represent 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.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS:

The fair value and maturity term of the Authority's investments as of December 31, 2013 and 2012 is as follows:

	----- December 31, 2013 -----		
	Fair Value	No Stated Maturity	0-1 Years
Dreyfus Cash Mgt Funds	\$ 3,240,399	\$ 3,240,399	\$ -
U.S. Agency Fixed Income	3,500,162	-	3,500,162
	<u>\$ 6,740,561</u>	<u>\$ 3,240,399</u>	<u>\$ 3,500,162</u>
	----- December 31, 2012 -----		
	Fair Value	No Stated Maturity	0-1 Years
Dreyfus Cash Mgt Funds	\$ 1,355,422	\$ 1,355,422	\$ -
Corporate Notes	2,249,935	-	2,249,935
Money Market Funds	13,398	13,398	-
U.S. Agency Fixed Income	9,610,683	-	9,610,683
	<u>\$ 13,229,438</u>	<u>\$ 1,368,820</u>	<u>\$ 11,860,618</u>

Investments classified as U.S. Agencies are securities of agencies of the U.S. Government that have an implied but not explicit guarantee.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has no formal investment policy that limits its investment choices based on credit ratings by nationally recognized rating organizations. As of December 31, 2013 and 2012, investments in U.S. Agencies and Corporate Notes have received an 'AA+' rating from Standard & Poors.

Custodial Credit Risk:

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Authority's investments in Dreyfus Cash Management Agency Funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Authority does not have a formal investment policy for custodial credit risk.

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. The Authority's certificate of deposit, corporate note, and U.S. Agency fixed income security investments have maturity terms of less than 1 year.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS (Continued):

Concentration of Credit Risk:

The Authority places no limit on the amount it may invest in any one issuer.

The Authority's restricted assets as of December 31, 2013 and 2012 are comprised of the following:

	<u>12/31/2013</u>	<u>12/31/2012</u>
Construction Funds	\$ 4,035,773	\$ 10,766,731
Clearing Fund	-	13,398
Debt Service Funds	6,089,858	5,588,640
	<u>\$ 10,125,631</u>	<u>\$ 16,368,769</u>

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The following comprises the changes to the Authority's property, plant, and equipment account during 2013 and 2012:

	Balance 1/1/2013	Additions	Deletions	Balance 12/31/2013
Land	\$ 61,132	\$ -	\$ -	\$ 61,132
Infrastructure	33,159,918	342,875	-	33,502,793
Buildings	10,141,872	17,854	-	10,159,726
Plant Machinery and Equipment	7,951,625	46,045	(4,408)	7,993,262
Office Machinery and Equipment	114,890	12,416	-	127,306
Vehicles and Equipment	1,112,547	18,502	(30,725)	1,100,324
	<u>\$ 52,541,984</u>	<u>\$ 437,692</u>	<u>\$ (35,133)</u>	<u>\$ 52,944,543</u>
Less: Accumulated Depreciation	(15,086,018)	(1,317,124)	24,972	(16,378,170)
	<u>\$ 37,455,966</u>	<u>\$ (879,432)</u>	<u>\$ (10,161)</u>	<u>\$ 36,566,373</u>
Construction in Progress	44,364,174	12,158,967	-	56,523,141
	<u>\$ 81,820,140</u>	<u>\$ 11,279,535</u>	<u>\$ (10,161)</u>	<u>\$ 93,089,514</u>

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Land	\$ 61,132	\$ -	\$ -	\$ 61,132
Infrastructure	33,159,918	-	-	33,159,918
Buildings	9,773,354	368,518	-	10,141,872
Plant Machinery and Equipment	7,859,058	92,567	-	7,951,625
Office Machinery and Equipment	103,929	10,961	-	114,890
Vehicles and Equipment	911,870	200,677	-	1,112,547
	<u>\$ 51,869,261</u>	<u>\$ 672,723</u>	<u>\$ -</u>	<u>\$ 52,541,984</u>
Less: Accumulated Depreciation	(13,787,698)	(1,298,320)	-	(15,086,018)
	<u>\$ 38,081,563</u>	<u>\$ (625,597)</u>	<u>\$ -</u>	<u>\$ 37,455,966</u>
Construction in Progress	18,040,959	26,691,733	(368,518)	44,364,174
	<u>\$ 56,122,522</u>	<u>\$ 26,066,136</u>	<u>\$ (368,518)</u>	<u>\$ 81,820,140</u>

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4 – LONG-TERM DEBT

SEWER REVENUE BONDS – SERIES OF 2008

In October of 2008, the Authority issued Sewer Revenue Bonds - Series of 2008 under the terms of a First Supplemental Trust Indenture dated October 2, 2008, by and between the Authority and the Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition facilities required for the proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding of a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. The bonds provide for early redemption options as detailed in the official statement of issue. In July of 2012, Sewer Revenue Bonds - Series B of 2012 were issued for the purpose of advance refunding a portion (\$4,085,000) of Sewer Revenue Bonds – Series of 2008, leaving a balance at December 31, 2012 of \$5,575,000. Interest rates range between 5.2 and 5.45% and the bonds are scheduled to mature December 15, 2039.

SEWER REVENUE BONDS – SERIES OF 2009

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 under the terms of a Trust Indenture dated December 1, 2009, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

SEWER REVENUE BONDS – SERIES OF 2010

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 2.0 and 5.16%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2040.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4 – LONG-TERM DEBT (Continued)

SEWER REVENUE BONDS – SERIES OF 2011

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.25 and 5.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2030.

SEWER REVENUE BONDS – SERIES OF 2012

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036.

SEWER REVENUE BONDS – SERIES B OF 2012

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033.

SEWER REVENUE BONDS – SERIES OF 2013

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4 – LONG-TERM DEBT (Continued)

The following summarizes the Authority's bond debt service obligations of the Authority as of December 31, 2013:

Year	2008 Principal	2009 Principal	2010 Principal	2011 Principal
2014	\$ -	\$ 170,000	\$ -	\$ 1,040,000
2015	-	175,000	20,000	1,060,000
2016	-	185,000	25,000	1,085,000
2017	-	190,000	45,000	1,110,000
2018	-	200,000	65,000	1,145,000
2019-2023	-	1,155,000	690,000	6,470,000
2024-2028	150,000	1,470,000	1,265,000	8,005,000
2029-2033	2,085,000	1,935,000	1,060,000	3,770,000
2034-2038	2,705,000	3,335,000	6,120,000	-
2039-2041	635,000	1,020,000	4,490,000	-
	\$ 5,575,000	\$ 9,835,000	\$ 13,780,000	\$ 23,685,000

Year	2012 Principal	2012 B Principal	2013 Principal	Interest	Total
2014	\$ 185,000	\$ 5,000	\$ -	\$ 3,365,348	\$ 4,765,348
2015	185,000	5,000	-	3,336,910	4,781,910
2016	190,000	5,000	-	3,303,404	4,793,404
2017	190,000	5,000	-	3,268,116	4,808,116
2018	195,000	5,000	-	3,222,350	4,832,350
2019-2023	1,045,000	25,000	-	15,086,608	24,471,608
2024-2028	1,235,000	25,000	-	12,852,013	25,002,013
2029-2033	1,470,000	4,570,000	595,000	9,727,833	25,212,833
2034-2038	1,040,000	-	6,100,000	5,898,328	25,198,328
2039-2041	-	-	7,020,000	1,171,908	14,336,908
	\$ 5,735,000	\$ 4,645,000	\$ 13,715,000	\$ 61,232,818	\$ 138,202,818

DEFERRED FINANCING COSTS AND BOND PREMIUMS

In connection with the Authority's currently outstanding bond issues, the Authority paid approximately \$2,368,960 in bond issuance costs. For calendar year 2012, these costs were being amortized on a straight-line basis over the life of the bond issues. The unamortized amount of bond issuance costs at December 31, 2012 totaling \$2,107,253 is reflected in Exhibit A as part of 'other assets'. Amortization expense for the year ended December 31, 2012 was \$104,022. On January 1, 2013, the Authority implemented Government Accounting Standards Board (GASB) Statement No. 65 which requires the Authority to write off the remaining balance of unamortized bond issuance costs against the January 1, 2013 net position of the Authority (See Note 13).

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4 – LONG-TERM DEBT (Continued)

DEFERRED FINANCING COSTS AND BOND PREMIUMS (Continued)

In addition, bond discounts in connection with these bond issues totaled \$1,468,064. This amount is being amortized on a straight-line basis over the life of the bond issues and is charged as a component of interest expense in the statement of revenues, expenses and changes in net position. The unamortized amount of bond discount at December 31, 2013 and 2012 totaling \$1,234,682 and \$1,053,954 respectively, is reflected in Exhibit A as a reduction in 'bonds payable - long-term portion'. The amount of discount charged to interest expense was \$46,206 and \$46,153 for 2013 and 2012 respectively.

Lastly, the bond premium in connection with the Series of 2011 Sewer Revenue Bonds was \$816,328. This amount is being accreted on a straight-line basis over the life of the bond issue and is credited as a component of interest expense in the statement of revenues, expenses and changes in net position. The un-accreted amount of bond premium was \$716,078 and \$759,042 for 2013 and 2012 respectively, and is reflected in Exhibit A as an addition to 'bonds payable - long-term portion'. The amount of premium credited to interest expense was \$42,964 for 2013 and 2012.

In connection with the issuance of Sewer Revenue Bonds – Series B of 2012 and Series of 2013, the Authority entered into irrevocable trust agreements with the Bank of New York Mellon Trust Company to purchase U.S. Government Securities in an amount sufficient to fully service a portion of the Series of 2008, Series of 2010, and Series of 2011 Sewer Revenue Bond Issue debt as they mature or are called. For financial reporting purposes, these bonds are considered defeased and therefore removed as a liability from the Authority's financial statements.

The difference between the defeased debt and the reacquisition price (amount deposited with escrow agent for refunding purposes) totaling \$1,600,742, is considered 'deferred interest' and is being amortized over the life of the new bond issue. The annual amortization of this deferred interest (\$39,571 for 2013) is reflected as a component of interest expense in the Statement of Revenues, Expenses and Changes in Net Position (Exhibit B). The unamortized amount of deferred interest at December 31, 2012 and December 31, 2013 totaling \$257,710 and \$1,574,971 respectively is reflected in Exhibit A as 'Deferred Outflows of Resources'.

SEWER REVENUE NOTE – SERIES OF 2011

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. The Note is scheduled to mature on February 2, 2014. As of December 31, 2013, the outstanding balance on this Note obligation is \$93,954.

PENNVEST

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$14,050,084 on the loan as of December 31, 2013. This loan has not been final amortized as of December 31, 2013. The outstanding balance as of December 31, 2013 is \$13,694,905.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4 – LONG-TERM DEBT (Continued)

CAPITAL LEASE – PNC EQUIPMENT FINANCE

In July of 2010, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Vactor 2100 on a 2009 International Cab and Chassis for \$328,368. The terms of the lease call for 5 annual payments of \$71,578.41 at an annual interest rate of 4.5% with a \$1 buy-out option at the completion of the lease term. The lease is scheduled to expire in August of 2014.

CAPITAL LEASE – PNC EQUIPMENT FINANCE

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016.

CAPITAL LEASE – ALLY FINANCIAL

In September of 2012, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Tahoe for \$34,995. The terms of the lease call for 3 annual payments of \$12,444.72 at an annual interest rate of 6.84%. The lease is scheduled to expire in September of 2014.

CAPITAL LEASE – ALLY FINANCIAL

In March of 2013, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Silverado for \$18,501.80. The terms of the lease call for 3 annual payments of \$6,579.50 at an annual interest rate of 6.84%. The lease is scheduled to expire in March of 2015.

A schedule of the future minimum lease rental payments as of December 31, 2013 is as follows:

Year	2010 PNC Principal	2012 PNC Principal	2012 Ally Financial Principal	2013 Ally Financial Principal	Interest	Total
2014	\$ 68,495	\$ 31,622	\$ 11,648	\$ 5,764	\$ 6,927	\$ 124,456
2015	-	32,349	-	6,158	1,926	40,433
2016	-	33,093	-	-	761	33,854
	<u>\$ 68,495</u>	<u>\$ 97,064</u>	<u>\$ 11,648</u>	<u>\$ 11,922</u>	<u>\$ 9,614</u>	<u>\$ 198,743</u>

DRAVOSBURG SEWER SYSTEM AND TREATMENT PLANT

On December 28, 2010, the Authority entered into agreement with the Borough of Dravosburg for the purchase of the Borough's sanitary sewer system and wastewater treatment plant in the amount of \$330,000 effective January 1, 2011. The terms of the agreement call for the advance payment of \$180,000 in 2011 with two subsequent payments of \$75,000 on January 1, 2012 and 2013 respectively. The final payment of \$75,000 was made to the Borough of Dravosburg in 2013.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4 – LONG-TERM DEBT (Continued)

The following represents the changes in the Authority's long-term debt obligations during 2013 and 2012:

	<u>Balance</u> <u>1/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2013</u>	<u>Due Within</u> <u>One Year</u>
Bonds	\$ 75,845,000	\$ 13,715,000	\$ (12,590,000)	\$ 76,970,000	\$ 1,400,000
Notes	19,548,795	7,206,473	(12,966,409)	13,788,859	-
Dravosburg	75,000	-	(75,000)	-	-
Capital Leases	284,566	18,502	(113,939)	189,129	117,529
	<u>\$ 95,753,361</u>	<u>\$ 20,939,975</u>	<u>\$ (25,745,348)</u>	<u>\$ 90,947,988</u>	<u>\$ 1,517,529</u>

	<u>Balance</u> <u>1/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2012</u>	<u>Due Within</u> <u>One Year</u>
Bonds	\$ 76,025,000	\$ 10,640,000	\$ (10,820,000)	\$ 75,845,000	\$ 1,810,000
Note	5,000,000	31,253,048	(16,704,253)	19,548,795	-
Dravosburg	150,000	-	(75,000)	75,000	75,000
Capital Leases	196,767	196,824	(109,025)	284,566	107,364
	<u>\$ 81,371,767</u>	<u>\$ 42,089,872</u>	<u>\$ (27,708,278)</u>	<u>\$ 95,753,361</u>	<u>\$ 1,992,364</u>

NOTE 5 – LEASE RENTAL EXPENSE

On October 17, 2008, the Authority entered into a lease purchase agreement with the City of McKeesport, effective January 1, 2009, for the purchase of the City's sanitary collection system. In connection with that agreement, the Authority agreed to also pay, on a monthly basis, the outstanding balance due on two (2) loans the City has with the Pennsylvania Infrastructure Investment Authority (PENNVEST) related to improvements made to the collection system. The current monthly payments total \$26,019. During the calendar years 2013 and 2012, the Authority reimbursed the City \$312,166 and \$311,849 respectively for these PENNVEST loans. The remaining principal amounts due on these loans, per amortization schedules received from the City, total approximately \$3,861,474 at December 31, 2013. The following represents the minimum lease rental payments remaining on this obligation as of December 31, 2013:

<u>Year</u>	<u>AMOUNT</u>
2014	\$ 312,436
2015	312,436
2016	312,436
2017	312,436
2018	312,436
2019-2023	1,562,180
2024-2028	944,102
	<u>\$ 4,068,462</u>

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 6 – ACCUMULATED COMPENSATED ABENCES

In accordance with the terms of the collective bargaining agreement between the Authority and the Utility Workers Union of America, AFL-CIO, all regular full-time employees are entitled to receive payment for the value of all unused vacation days upon separation of service from the Authority at the employee's regular daily rate. This practice also applies to administrative personnel not covered under the terms of the bargaining agreement. As of December 31, 2013 and 2012, the value of accumulated compensated absences totaled \$144,412 and \$127,969 respectively.

NOTE 7 – TRANSACTIONS WITH THE CITY OF MCKEESPORT

The Authority entered into an agreement with the City of McKeesport dated December 29, 1949, as amended June 2, 1992, to provide sewage treatment services to the City and to pay the City \$30,000 annually for the maintenance cost of the sewers located within the City. In addition, during 2008, the Authority was responsible for paying the City a quarterly administrative fee, based on water usage, for the City to bill and collect certain fees from its customers within the City. Effective February 1, 2009, the Authority began billing and collecting these fees directly to the customers within the City of McKeesport. In addition, the Authority paid the City of McKeesport \$600,000 for the estimated value of collectible delinquent sewage fees outstanding. This amount, less delinquent collections in 2013 and 2012, is reflected in the statement of net position as 'Delinquent Sewage Service Receivable – City of McKeesport' totaling \$192,458 and \$202,585 respectively.

NOTE 8 - AUTHORITY PENSION PLAN

The Authority established a single-employer defined benefit pension plan on March 1, 1964, as amended, to provide retirement benefits to eligible employees of the Authority.

Plan membership as of January 1, 2013 was comprised of:

Active employees	51
Retirees and beneficiaries currently receiving benefits	16
Terminated employees entitled to benefits but not yet receiving them	1
Total	68

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

- PARTICIPANTS** - All employees of the Authority who customarily work at least 20 hours per week and at least 5 months per year.
- ELIGIBILITY** - All participants are eligible for retirement benefits provided that they have attained the age of 62 and have completed 10 years of continuous service. Participants are eligible for early retirement at age 55 with 20 years of continuous service.
- VESTING** - Vesting occurs on a sliding scale with full vesting occurring after 20 years of service.
- BENEFITS** - 50% of Average Compensation multiplied by participants short service percentage (effective 1/1/2008).

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 8 - AUTHORITY PENSION PLAN (Continued)

DEATH BENEFIT - The plan provides for beneficiary benefits named by the participant under options as detailed in the retirement plan.

FUNDING - Member contributions equal 2.5% (3% for 2012) of compensation. This rate increases to 2.75% if the Authority's Minimum Municipal Obligation (MMO) exceeds \$65,000 and 3% if the MMO exceeds \$90,000. Members contributed \$72,247 and \$61,839 to the plan during 2013 and 2012 respectively. Pension expense of the Authority totaled \$341,096 for 2013 and \$309,526 for 2012.

The investment income of the plan was used to fund administrative costs. There are no long-term contracts for contributions as of December 31, 2013 and 2012. In addition, there are no assets legally reserved for purposes other than the payment of plan member benefits. The plan does not issue a stand-alone report.

The significant assumptions employed in the most recent actuarial valuation (dated 1/1/2013) to determine funding included the use of an 8% interest rate and a salary projection of 4.5%. The pension plan uses the Entry Age Normal Actuarial Cost Method. Net assets available for benefits as of January 1, 2013 were \$4,737,232. A schedule of the Authority's annual required contributions (ARC) to the plan is as follows:

<u>Year</u>	<u>ARC</u>	<u>% Contributed</u>
2013	\$ 341,096	100%
2012	309,526	100%
2011	220,395	145%
2010	40,052	100%
2009	17,202	100%
2008	7,166	100%
2007	83,326	100%
2006	98,910	100%
2005	92,823	100%
2004	79,697	100%

Historical trend information, designed to provide information about the plan's progress made accumulating sufficient assets to pay benefits when due, is as follows:

<u>ACTUARIAL VALUATION DATE</u>	<u>(A) ACTUARIAL VALUE OF ASSETS</u>	<u>(B) ACTUARIAL ACCRUED LIABILITY</u>	<u>(B-A) (UAAL) UNFUNDED ACTUARIAL ACCRUED LIABILITY</u>	<u>(A/B) FUNDED RATIO</u>	<u>(C) COVERED PAYROLL</u>	<u>(B-A)/C UAAL AS A % OF COVERED PAYROLL</u>
1/1/05	\$ 4,264,511	\$ 4,049,779	\$ (214,732)	105%	\$ 1,065,402	-20%
1/1/07	5,105,407	4,262,176	(843,231)	120%	1,063,399	-79%
1/1/09	4,528,958	5,065,447	536,489	89%	1,312,812	41%
1/1/11	4,331,884	5,578,758	1,246,874	78%	1,804,894	69%
1/1/13	4,469,879	6,843,691	2,373,812	65%	2,551,011	93%

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 8 - AUTHORITY PENSION PLAN (Continued)

The following shows the components of the Authority's net pension obligation (NPO) for the past three calendar years:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annual required contribution	\$ 40,052	\$ 220,395	\$ 309,526
Interest on net pension obligation	(1,764)	(1,699)	(9,538)
Adjustment to annual required contribution	2,575	2,266	12,415
Annual pension cost (expense)	<u>\$ 40,863</u>	<u>\$ 220,962</u>	<u>\$ 312,403</u>
Contributions made	40,052	318,960	309,526
(Decrease) in net pension obligation	\$ 811	\$ (97,998)	\$ 2,877
Net Pension Obligation - January 1	(22,044)	(21,233)	(119,231)
Net Pension Obligation - December 31	<u><u>\$ (21,233)</u></u>	<u><u>\$ (119,231)</u></u>	<u><u>\$ (116,354)</u></u>

The above calculation utilized an assumed interest rate of 8% for 2010-2012. The amortization period was 15, 18, and 19 years respectively, and the amortization factor was 8.5595, 9.3719, and 9.6036 respectively.

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

The Municipal Authority of the City of McKeesport provides post-employment medical benefits to eligible full-time non-bargaining employees and members covered under the Collective Bargaining Agreement between the Authority and the Utility Workers Union of America (AFL-CIO). Healthcare coverage that an employee has at the time of retirement will be paid at retirement, but no earlier than age 62. The healthcare coverage will cease at the employees age of 65. As of December 31, 2013 and 2012, two union retirees were receiving post-retirement health care benefits from the Authority. The Authority finances these benefits on a pay-as-you-go basis. Amounts paid for these benefits for the years ended December 31, 2013 and 2012 were deemed immaterial.

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, 'Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions'. This statement provides the accounting and reporting requirements for benefit plans, as well as, requires that public sector employers accrue the cost of any postretirement healthcare or similar benefits (OPEB) they may offer to employees. Under GASB Statement No. 45, retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)

The Annual OPEB and Net Pension Obligation for the years ending December 31, 2013 and December 31, 2012, and certain other required supplementary information as of January 1, 2012 is as follows:

	2013	2012
Normal Cost	\$ 201,638	\$ 208,006
Amortization of Unfunded Accrued Liability	-	-
Annual Required Contribution (ARC)	\$ 201,638	\$ 208,006
Interest on Net OPEB Obligation	-	-
Adjustments to ARC	-	-
Annual OPEB Cost	\$ 201,638	\$ 208,006
Contributions Made (Estimated)	(843)	(952)
Estimated Increase in Net OPEB Obligation	\$ 200,795	\$ 207,054
Net OPEB Obligation - January 1, 2013	207,054	-
Net OPEB Obligation - December 31, 2013	<u>\$ 407,849</u>	<u>\$ 207,054</u>

FUNDED STATUS AND FUNDING PROGRESS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, as shown below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

	(A)	(B)	(B-A) (UAAL)	(A/B)	(C)	(B-A)/C
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	UNFUNDED ACTUARIAL ACCRUED LIABILITY	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
1/1/12	\$ -	\$ 931,894	\$ 931,894	0%	\$ 2,028,488	45.90%

ACTUARIAL METHODS AND ASSUMPTIONS

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

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)

ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

The January 1, 2012 actuarial valuation reports utilized the Entry Age Normal Cost Actuarial Cost Method. The UAAL is being amortized based on a level dollar, 20 year closed period resulting in an amortization factor of 9.6036. The Discount Rate used was 4.0%. Retiree contributions are assumed to increase at the same rate as the health care cost trend rate which is 9% for 2013, decreasing by 1% per year to 7% in 2015.

A detail description of the provisions of the post-employment benefit plan is available in the GASB 45 actuarial valuation report as of January 1, 2012. The Net OPEB liability of \$407,489 is reflected as part of Noncurrent Liabilities in the financial statement of net position (Exhibit A).

NOTE 10 - RISK MANAGEMENT

The 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. The risk of loss retained by the Authority is limited to deductibles under each of the policies which can range between \$2,500 and \$10,000 per item.

For its workers compensation insurance coverage, the Authority participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), which is a public entity risk pool comprised of approximately 200 governmental organizations. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals from the Pennsylvania Department of Labor and Industry. All Trust participants may be subject to a supplemental assessment/dividend based on overall experience of the participants.

Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers Compensation Act and Occupational Disease Act of each and every participant of the Trust. The Trust purchases excess insurance coverage within statutory limits. The retention for this coverage is \$750,000 per occurrence. Political subdivisions joining the Trust must remain members for a minimum of four years. Members may withdraw from the Trust after that time by giving ninety days notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdraw, the participant is responsible for their share of assessments but has no claim on any assets of the Trust.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES

LEGAL MATTERS

The Authority, on occasion, can be party to various legal actions arising from normal business operations, the aggregate effect of which, in management's opinion, would not be material to the financial position of the Authority as of December 31, 2013 and 2012.

PENNSYLVANIA SEWAGE FACILITIES ACT (ACT 537)

Act 537 requires municipalities in Pennsylvania to develop and implement official sewage plans that address existing sewage disposal needs, account for future land development and provide for future sewage disposal needs. During 2009 and 2010, the Authority worked with the PA Department of Environmental Protection to develop its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. In 2011 fifteen separate contracts were awarded for construction projects related to these Plans. These Plans require significant new treatment processes, pumping stations and interceptor lines with an associated capital cost of approximately \$54 million.

To finance the project, the Authority has chosen to issue a series of bonds (see Note 4) at a rate of one per year, thereby enabling the Authority to step the necessary sewage rate increases over the next four to five years as opposed to a significant rate increase in any one year. In 2011 Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest. The award was issued only for Contract 2010-1 and 2010-2 which covers the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. All unused funds will be retained by PENNVEST. The other 13 contracts will be financed by the previously mentioned bond issues.

U.S. ARMY CORPS OF ENGINEERS (COE)

The U.S. Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result, the federal government is funding the relocation of most of the CSO structures. Construction for Phase 1 of the project was completed in 2007. Phase II began in the second half of 2009 and was completed in the first half of 2011. The Evans Avenue Overflow Line is the only remaining line that needs to be raised, however, the COE do not have any funds allocated for this line at this time. The Authority now has new outfall structures that will greatly reduce the amount of river water that flows back through the pipes and into the sewer lines. This, in return, will reduce the costs associated with treating unnecessary water.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 12 – OBLIGATIONS IMPOSED UPON THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT BY CITY OF MCKEESPORT ORDINANCE NO. 12-20, ENACTED OCTOBER 3, 2012, WITH AN EFFECTIVE DATE OF OCTOBER 6, 2012

Pursuant to City of McKeesport Ordinance No. 12-20, enacted into law by the City of McKeesport on October 3, 2012, with an effective date of October 6, 2012, The Municipal Authority of the City of McKeesport is required to pay the City of McKeesport an Intergovernmental Agreement Fee in lieu of the normal property and revenue assessments and to compensate the City of McKeesport for all services and increased costs the location and expansion of the Authority's treatment plant have caused at a rate of \$1,000,000 per year and with The Municipal Authority of the City of McKeesport to enter into and execute a Cooperation Agreement with the City of McKeesport according to the terms approved by the Solicitor and Mayor of the City of McKeesport and specifically incorporating such Intergovernmental Agreement Fee. Such Cooperation Agreement was thereafter prepared by the City of McKeesport; dated December 12, 2012; and entered into and executed by The Municipal Authority of the City of McKeesport. Such Cooperation Agreement requires The Municipal Authority of the City of McKeesport to pay on or before December 25th of each year a \$1,000,000 Intergovernmental Agreement Fee for the initial year and with such Authority payment to be increased by 1% for each year thereafter during the term of the Cooperation Agreement. Services include, but are not limited to: Drafting services for mapping system, Permits for sewer taps and relays, Engineering services, Procurement of right-of-ways and easements, Surveying services, Use of specialized equipment owned by City, Police, Fire, and Ambulance services, Electrical department services, and many other services rendered as stated in Agreement.

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

The prior period adjustment totaling \$2,314,307, as reflected on Exhibit B, is comprised of 1) the write-off of \$2,107,253 in unamortized bond and note issuance costs resulting from the implementation of Government Accounting Standards Board Statement No. 65 (Note 4), and 2) a provision totaling \$207,054 for the Authority's net other post-employment benefit (OPEB) obligation at January 1, 2013 resulting from the implementation of Government Accounting Standards Board Statement No. 45.

NOTE 14 – PENDING GASB PRONOUNCEMENTS

In June 2012, GASB issued Statements No. 67 and 68, Accounting and Financial Reporting for Pensions, which amend GASB Statements Nos. 25 and 27. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of these Statements are effective for the Authority's December 31, 2014 financial statements.

In November of 2013, GASB issued Statement No. 71, 'Pension Transition for Contributions Made Subsequent to Measurement Date – an Amendment to GASB 68'. The primary objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The provisions of these Statements are effective for the Authority's December 31, 2015 financial statements.

The effects of the implementation of these standards on the Municipal Authority of the City of McKeesport's financial statements have not yet been determined.

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 15 – SUBSEQUENT EVENTS

In January of 2014, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2014 under the terms of a Trust Indenture dated February 19, 2014, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$6,410,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2008, 2) fund construction and/or acquisition of capital additions, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at interest rates ranging between 1.0% and 4.65%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

Management has determined that there are no additional events subsequent to December 31, 2013 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.

***SUPPLEMENTARY
INFORMATION***

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
STATEMENT OF DETAIL OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
<u>PERSONNEL COSTS</u>		
Plant Salaries	\$ 2,291,821	\$ 2,160,123
Administrative Salaries	331,625	385,590
Payroll Taxes	199,933	194,846
Pension	341,096	309,526
Employee Benefits	897,414	603,915
TOTAL PERSONNEL	\$ 4,061,889	\$ 3,654,000
<u>PROFESSIONAL SERVICES</u>		
Engineering (Net of COE Reimbursements)	\$ 57,417	\$ 172,059
Audit	8,200	6,900
Legal	185,946	75,317
Accounting	4,800	4,800
Pension Services	37,529	22,525
Oxford Solutions/Delta Development	-	2,500
Payroll Services	7,016	6,592
Miscellaneous Professional Services	7,650	-
TOTAL PROFESSIONAL SERVICES	\$ 308,558	\$ 290,693
<u>SEWAGE PLANT COSTS</u>		
Utilities	\$ 423,732	\$ 303,740
Repair and Maintenance	334,066	479,031
Lease Rental Expense	312,166	311,849
Chemicals	66,369	39,681
Lab Supplies and Analysis	47,522	48,797
Safety Program	19,238	8,058
Vehicle Expense	95,170	77,834
Sludge Hauling	264,866	318,230
Computers	26,019	31,608
Uniforms	10,569	11,476
CSO Study	114,572	42,976
Duquesne/Dravosburg Expenses	113,649	155,331
Miscellaneous	33,525	14,022
TOTAL SEWAGE PLANT COSTS	\$ 1,861,463	\$ 1,842,633
<u>OTHER GENERAL AND ADMINISTRATIVE</u>		
Insurance	\$ 121,918	\$ 82,430
Office Supplies	4,245	9,239
Telephone	64,148	28,972
Billing and Collecting	76,745	65,501
Travel and Education	21,059	26,952
Advertising	2,773	3,997
Bond and Asset Management Fees	45,700	64,666
Permits/Dues/Fees	14,875	9,795
Miscellaneous	47,416	48,598
TOTAL OTHER GENERAL AND ADMINISTRATIVE	\$ 398,879	\$ 340,150
<u>DEPRECIATION</u>	\$ 1,317,124	\$ 1,298,320
TOTAL OPERATING EXPENSES	\$ 7,947,913	\$ 7,425,796

The accompanying notes are an integral part of these financial statements

**The City of McKeesport, Pennsylvania
And
The Municipal Authority of the City McKeesport**

**Appraisal Work Papers
As of September 2016**

**Income Approach
Financials 2014**

**AUS Consultants
Suite 201
8555 West Forest Home Avenue
Greenfield, Wisconsin 53228
Office Telephone: 414-529-5755
J. Weinert's Cell: 414-698-8371
J. Weinert's E-Mail: weinertj@auswest.net**

Operating Data 2014

2014 LARGEST CUSTOMERS

Customer	Consumption	2014 Annual Revenues	% of Total 2014 Revenues
UPMC Health System #11	16,848	\$207,464.40	3.0%
McKeesport Housing Auth (1-14 Harrison Village)	9,977	\$126,695.10	2.06%
McKeesport Housing Auth (23-41 Crawford Village)	7,250	\$89,337.00	1.45%
Dravosburg Housing Auth (250 Scott Dr)	9,131	\$89,112.75	1.45%
McKeesport Housing Auth (Brownlee/Yester Sq)	6,791	\$87,226.20	1.42%
Midtown Plaza/7105	6,908	\$87,031.20	1.42%
US Steel	5,314	\$65,427.00	1.07%
McKeesport Housing Auth (6 th St & Huey St)	3,319	\$42,886.50	0.70%
McKeesport Area High School	3,219	\$41,656.50	0.68%
Guy Deluca (Kane Hospital)	3,362	\$41,575.80	0.68%
TOTAL	72,119	\$878,412.45	13.93%

Source: Authority Officials

SEWER SYSTEM RATES

Sewage Service Rates Per Quarter

Size Charge/1,000 Consumed Gallons allowed for min.

2007 1,000 \$3.16

2008 1,000 \$3.70

2009 1,000 \$4.44

2010 1,000 \$5.30

2011 1,000 \$6.10

2012 1,000 \$6.10

7/1/2013 1,000 \$7.85*

1/1/2014 1,000 \$7.95**

1/1/2015 1,000 \$8.05***

* Rate approved at 10-31-12 Authority Board Meeting

** Rate approved at 10-22-13 Authority Board Meeting

*** Rate approved at 10-21-14 Authority Board Meeting

Trends in Customer Breakdown – Sewer System

Year

Historical Number of Customers

2001 19,987*

2002 19,987*

2003 19,987*

2004 19,142*

2005 19,070*

2006 19,180*

2007 19,225*

2008 19,225*

2009 19,225*

2010 18,985~

2011 18,985~

2012 21,556~

2013 22,007~

2014 21,576~

* Number provided by the communities in their annual waste load management report

~Number provided by Service Community billing departments

Source: Authority Officials

**THE MUNICIPAL AUTHORITY OF
THE CITY OF MCKEESPORT**

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FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF MCKEESPORT**  
MCKEESPORT, PENNSYLVANIA

FINANCIAL STATEMENTS  
WITH REPORT BY  
CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEARS ENDED  
DECEMBER 31, 2014 AND 2013**

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**MCKEESPORT, PENNSYLVANIA**

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# **Mark C. Turnley**

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*Certified Public Accountant*

1000 3<sup>rd</sup> Avenue  
New Brighton, Pennsylvania 15066  
(724) 384-1081  
FAX (724) 384-8908

**To the Board of Directors  
Municipal Authority of the City of McKeesport**

## Independent Auditor's Report

### **Report on Financial Statements**

I have audited the accompanying financial statements of the Municipal Authority of the City of McKeesport as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Municipal Authority of the City of McKeesport'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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Municipal Authority of the City of McKeesport as of December 31, 2014 and 2013, 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**

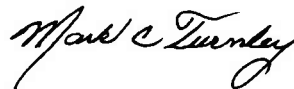
### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iii-xv 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 Municipal Authority of the City of McKeesport's basic financial statements. The supplementary information (statement of detail operating expenses) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information (statement of detail operating expenses) 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 (statement of detail operating expenses) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Mark C. Turnley, CPA

July 30, 2015  
New Brighton, Pennsylvania

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013

This section of the Authority's annual financial report represents our discussion and analysis of the Authority's financial performance during the years ended December 31, 2014 and 2013. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. We encourage readers to consider the information presented here in conjunction with the information provided in the Authority's financial statements.

**OPERATING AGREEMENTS**

The Authority owns and operates three wastewater treatment facilities pursuant to Agreements with each of the twelve communities it serves. The Authority has Agreements to provide wastewater treatment services with the City of McKeesport, the City of Duquesne, the Borough of Liberty, the Borough of Port Vue, the Borough of East McKeesport, the Township of Elizabeth, the Borough of Glassport, the Borough of White Oak, the Borough of Versailles, the Borough of Lincoln, the Borough of Dravosburg, and the Township of North Versailles. The Authority's Board of Directors establishes rates which are designed to recover the cost of providing services. The rates are based upon the gallons of water used by the communities. The Authority bills the municipalities on a quarterly basis for services provided to the communities' residents at the established rate. The municipalities are responsible for setting a rate for customers within their municipalities and for billing and collecting from those customers. The Authority began conducting billing services for Versailles Borough in March of 2009 in addition to the systems that it owns; McKeesport, Duquesne & Dravosburg.

The City of McKeesport sold its Collection System to the Authority effective January 1, 2009 under a lease purchase agreement. The acquisition of the sewer system included more than 550,000 feet of sewer lines ranging in size from 6" to 42" and two pumping stations. Since that date Authority personnel have performed routine maintenance and repairs to the system. On November 8, 2010 the City of Duquesne sold its wastewater treatment plant and collection system to the Authority for \$3.8 million. The acquisition added an additional 163,700 feet of sewer lines and 557 manholes to the Authority's care. A combined sewer overflow (CSO) long term control plan has been developed and is waiting on DEP approval. In January of 2011 the Authority purchased the Dravosburg Wastewater Treatment Facility along with its corresponding collection system from the Borough of Dravosburg for \$330,000. The acquisition added an additional 47,500 feet of sewer lines and one pump station. The CSO Long Term Control Plan has been joined with the Duquesne Plan for a joint plan for both systems.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include only those of the Authority which is a component unit of the City of McKeesport, Pennsylvania. The financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. They are designed to provide a broad overview of the Authority's finances, in a manner similar to a private-sector business. All of the Authority's activities are reported in the statements except for activities associated with the pension fund because those funds are not available to support the Authority's own programs.

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference of the two reported as Net Position. Net Position is reported as one of three categories: net investment in capital assets; restricted; or unrestricted.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's Net Position changed during the year. All of the changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected rates and earned but unused vacation leave).

These two financial statements report the Authority's Net Position and the changes in the Net Position. Net Position, which represents the difference between assets and liabilities, are one measure of the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's Net Position may serve as a useful indicator of whether its financial position is improving or deteriorating.

Notes to the financial statements provide additional information that is essential to a full understanding of the information proved in these financial statements. The financial statements and accompanying notes can be found in the financial section of this report.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013

**FINANCIAL HIGHLIGHTS**

In 2013 the Authority raised their sewage processing rate to \$7.85/1000 gallons consumed, this occurred on July 1<sup>st</sup> 2013. This rate increase was intended for the financing of the Sewage Treatment Plant Expansion, two new pump stations, the revamping of three other pump stations, and the construction of new force mains along with interceptor lines. This rate increase occurred soon after the bond and loan payments commenced. In 2014 the Authority had a minimal raise of ten cents to their sewage processing rate to \$7.95/1000 gallons to cover increased operating costs, inflation, etc.

Bids for the Act 537 Plan Expansion Project were opened on March 7, 2011 and fifteen (15) contracts were awarded on May 26, 2011.

The Authority was awarded PennVest funding on April 20, 2011. The funding consisted of \$17,239,375 in the form of a grant and an equal amount in the form of a one (1.0) percent thirty (30) year loan. These funds are to apply only to the two contracts pertaining to the construction relating to the upgrade of the wastewater treatment facility itself. It cannot be used for the upgrades to the pump stations or lines. The cost of these other contracts not covered by Pennvest funds will be funded by the bond revenues.

The Tapping Fee (Capacity fee) remained unchanged in 2014 at a rate of \$1,750 per Equivalent Dwelling Unit ("EDU"). An EDU, equivalent dwelling unit, is the average amount of wastewater that each household in the service area discharges each day. The Authority calculates an EDU to be 236 gallons per day. During 2013, there were two (2) new commercial taps purchased within the Authority's service area, and during 2014 there were forty-six (46) new commercial taps purchased within the Authority's service area. The balance of cash accumulated from tapping fees (The Tapping Fee Account), reserved by the Board for capital projects, at December 31, 2013 was \$349,862 and at December 31, 2014 was \$430,758.

On December 31, 2014, total assets and deferred outflow of resources were \$108,069,635 and total liabilities were \$92,626,701 yielding a net position of \$15,442,934. General operations resulted in an increase in total Net Position of \$803,265 for calendar year 2014.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013

**FINANCIAL HIGHLIGHTS (Continued)**

For the year 2014, 4.077 billion gallons of wastewater were treated at the Authority's three (3) wastewater treatment facilities. Approximately 1.161 billion gallons of water were consumed in 2014 by the Authority's customers and paid for by their user fees. By comparison, 28.5% of the wastewater treated was billable down from 29.6% in 2013. The remaining 2.916 billion gallons of wastewater, down from 2.929 billion gallons from 2013, entered the system from rainwater, groundwater, streams and rivers, water line breaks, firefighting efforts, etc. The 2014 annual rainfall decreased from the previous year; 45.49 inches in 2013 to 36.78 inches in 2014.

Total Operating Revenues were \$13,314,029, an increase of \$2,232,080, or 20% over 2013, primarily caused by the rate increase that occurred in 2014 and the full recognition of the 2013 rate increase.

Operating Expenses were \$7,665,731, an increase of \$5,031 over 2013. The largest increase was a charge for bad debt expense of \$287,213. The largest decreases came from personnel and related employee benefits and a payment to Dravosburg of \$113,649 in 2013.

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013

**FINANCIAL ANALYSIS**

The following condensed financial statements and other selected information serve as financial data and indicators to help the Authority manage, monitor, and plan.

**Condensed Statement of Net Position**

|                                                              | <u>12/31/2014</u>     | <u>12/31/2013</u>     | <b>INCREASE<br/>&lt;DECREASE&gt;</b> |
|--------------------------------------------------------------|-----------------------|-----------------------|--------------------------------------|
| Current & Restricted Assets                                  | \$ 9,835,010          | \$ 11,255,435         | \$ (1,420,425)                       |
| Capital Assets - net of depreciation                         | 93,963,753            | 93,089,514            | 874,239                              |
| Other Assets                                                 | 2,758,051             | 2,542,375             | 215,676                              |
| Deferred Outflows of Resources                               | 1,512,821             | 1,574,971             | (62,150)                             |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS<br/>OF RESOURCES</b> | <b>\$ 108,069,635</b> | <b>\$ 108,462,295</b> | <b>\$ (392,660)</b>                  |
| Current Liabilities                                          | \$ 3,517,779          | \$ 4,358,510          | \$ (840,731)                         |
| Long-term Liabilities                                        | 89,108,922            | 89,464,116            | (355,194)                            |
| <b>TOTAL LIABILITIES</b>                                     | <b>\$ 92,626,701</b>  | <b>\$ 93,822,626</b>  | <b>\$ (1,195,925)</b>                |
| Net Investment in Capital Assets                             | \$ 6,819,924          | \$ 5,892,168          | \$ 927,756                           |
| Restricted for Debt Service                                  | 5,569,004             | 6,089,858             | (520,854)                            |
| Unrestricted                                                 | 3,054,006             | 2,657,643             | 396,363                              |
| <b>TOTAL NET POSITION</b>                                    | <b>\$ 15,442,934</b>  | <b>\$ 14,639,669</b>  | <b>\$ 803,265</b>                    |

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

|                               | <u>2014</u>           | <u>2013</u>           | <b>INCREASE<br/>&lt;DECREASE&gt;</b> |
|-------------------------------|-----------------------|-----------------------|--------------------------------------|
| Operating Revenues            | \$ 13,314,029         | \$ 11,081,949         | \$ 2,232,080                         |
| Operating Expenses            | 7,952,944             | 7,947,913             | 5,031                                |
| <b>NET OPERATING INCOME</b>   | <b>\$ 5,361,085</b>   | <b>\$ 3,134,036</b>   | <b>\$ 2,227,049</b>                  |
| Non-Operating Revenues        | \$ 255,237            | \$ 2,666,766          | \$ (2,411,529)                       |
| Non-Operating Expenses        | (4,813,057)           | (5,043,482)           | 230,425                              |
| <b>NET NON-OPERATING</b>      | <b>\$ (4,557,820)</b> | <b>\$ (2,376,716)</b> | <b>\$ (2,181,104)</b>                |
| <b>CHANGE IN NET POSITION</b> | <b>\$ 803,265</b>     | <b>\$ 757,320</b>     | <b>\$ 45,945</b>                     |

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**FINANCIAL ANALYSIS (Continued)**

Overall, the Authority's financial condition remained strong in 2014. Most of the ten service communities are up to date with their payments with the exception of East McKeesport which continues to lag one quarter behind due to the length of time it takes to get their consumption numbers from the water authority. The addition of the McKeesport Collection System in 2009, the Duquesne Wastewater Treatment Plant and System in 2010, and the Borough of Dravosburg Wastewater Treatment Plant and System in 2011, as well as, the expressed interest of at least three of the Authority's service communities to sell their systems to the Authority has greatly expanded the scope of the Authority's influence and responsibilities and bodes well for the future success of the Authority. Grant proceeds of \$2,593,712 were received in 2013 and \$211,828 received in 2014 from PENNVEST for the wastewater treatment facility project.

The following table shows the Authority's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues. The effect of the addition of the 'Intergovernmental Agreement Fee' starting in 2012 is reflected in the decrease in operating cash as a percentage of operating revenues.

|                                                      | 2014         | 2013          | Variance    |
|------------------------------------------------------|--------------|---------------|-------------|
| Total operating revenues                             | \$13,314,029 | \$ 11,081,949 | \$2,232,080 |
| Net cash provided by operations                      | \$6,718,419  | \$4,373,072   | 2,345,347   |
| Operating cash as a percentage of operating revenues | 50.5%        | 39.5%         | 11%         |

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

On December 31, 2014, the Authority had \$93,963,753 invested in capital assets, including land, infrastructure, buildings, plant and office machinery and equipment, and vehicles net of depreciation. This amount represents a net increase (including additions, deletions and depreciation) of \$874,239, or approximately .94% from last year.

The Authority had approximately \$2,207,596 in capital additions during the 2014 year, mainly comprised of 1) costs incurred of \$1,742,560 for the Act 537 system improvements and upgrades including WWTP expansion, pump station construction, sanitary sewer construction and force main construction, and 2) \$393,801 for a vector truck.

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

|                              | <u>2014</u>          | <u>2013</u>          | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|------------------------------|----------------------|----------------------|--------------------------------------|
| Land                         | \$ 61,132            | \$ 61,132            | \$ -                                 |
| Infrastructure               | 33,502,793           | 33,502,793           | -                                    |
| Buildings                    | 10,165,226           | 10,159,726           | 5,500                                |
| Plant Machinery & Equipment  | 7,955,983            | 7,993,262            | (37,279)                             |
| Office Machinery & Equipment | 143,791              | 127,306              | 16,485                               |
| Vehicles and Equipment       | 1,354,294            | 1,100,324            | 253,970                              |
|                              | <u>\$ 53,183,219</u> | <u>\$ 52,944,543</u> | <u>\$ 238,676</u>                    |
| Accumulated Depreciation     | (17,485,167)         | (16,378,170)         | (1,106,997)                          |
|                              | <u>\$ 35,698,052</u> | <u>\$ 36,566,373</u> | <u>\$ (868,321)</u>                  |
| Construction in Progress     | 58,265,701           | 56,523,141           | 1,742,560                            |
|                              | <u>\$ 93,963,753</u> | <u>\$ 93,089,514</u> | <u>\$ 874,239</u>                    |



**THE MUNICIPAL AUTHORITY OF  
THE CITY OF McKEESPORT**  
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For the Years Ended December 31, 2014 and 2013

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**DEBT ADMINISTRATION**

As of December 31, 2014, the Authority had total long-term debt outstanding of \$90,615,977. The Authority's debt obligations are comprised of 1) seven sewer revenue bonds, 2) one sewer revenue note, 3) one PENNVEST note, 4) three capital lease obligations with PNC Equipment Finance, and 4) one capital lease obligations with Ally Financial as follows:

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 in the amount of \$10,000,000 for the purpose of 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2014 is \$9,665,000.

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds – Series of 2013 were issued for the purpose of advance refunding a portion (\$11,215,000) of Sewer Revenue Bonds – Series of 2010, leaving a balance at December 31, 2014 of \$13,780,000. Interest rates range between 2.5 and 5.0% and the bonds are scheduled to mature on December 15, 2041.

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

**DEBT ADMINISTRATION: (Continued)**

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds – Series of 2013 were issued for the purpose of advance refunding a portion (\$500,000) of Sewer Revenue Bonds – Series of 2011, leaving a balance at December 31, 2014 of \$22,645,000. Interest rates range between 2.0 and 4.25% and the bonds are scheduled to mature on December 15, 2030.

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036. The remaining principal balance on the bond issue as of December 31, 2014 is \$5,550,000.

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033. The remaining principal balance on the bond issue as of December 31, 2014 is \$4,640,000.

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

**DEBT ADMINISTRATION: (Continued)**

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds - Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041. The remaining principal balance on the bond issue as of December 31, 2014 is \$13,715,000.

In January of 2014, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2014 under the terms of a Trust Indenture dated February 19, 2014, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$6,410,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds - Series of 2008, 2) fund construction and/or acquisition of capital additions, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at interest rates ranging between 1.0% and 4.65%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2014 is \$6,335,000.

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. As of December 31, 2014, the outstanding balance on this Note obligation is \$546,933.

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

**DEBT ADMINISTRATION: (Continued)**

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$14,261,912 on the loan as of December 31, 2014. The outstanding balance on the loan as of December 31, 2014 was \$13,377,200.

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016. The remaining principal balance on the lease as of December 31, 2014 is \$65,442.

In March of 2013, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Silverado for \$18,501.80. The terms of the lease call for 3 annual payments of \$6,579.50 at an annual interest rate of 6.84%. The lease is scheduled to expire in March of 2015. The remaining balance on the lease as of December 31, 2014 is \$6,158.

In March of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2014 Vactor Truck for \$352,801. The terms of the lease call for 12 quarterly payments of \$30,242.80 at an annual interest rate of 2.8%. The lease is scheduled to expire in March of 2017. The remaining balance on the lease as of December 31, 2014 is \$266,326.

In May of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2013 Chevrolet Silverado for \$23,917. The terms of the lease call for 3 annual payments of \$8,309.51 at an annual interest rate of 2.1%. The lease is scheduled to expire in May of 2017. The remaining balance on the lease as of December 31, 2014 is \$23,917.

**THE MUNICIPAL AUTHORITY OF  
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**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**DEBT ADMINISTRATION: (Continued)**

The Authority is scheduled to make principal and interest payments on their total debt of approximately \$5,253,462 during the 2015 calendar year. The principal and interest payment to be paid in 2015 do not include payments on the PENNVEST note as it is interim amortized at December 31, 2014 nor the Sewer Revenue Note, Series of 2011.

**SUBSEQUENT EVENT**

The Authority had no major subsequent events after December 31, 2014 that would affect the financial statements.

**GENERAL TRENDS AND SIGNIFICANT EVENTS**

Population in the Authority's service area continues to remain fairly constant, with a decrease in the population in the City of McKeesport and the City of Duquesne being offset by increases in other communities such as White Oak Borough, North Versailles Township and Elizabeth Township. It has been estimated that the population in the service area will increase at a rate of 90 persons per year for the next five years.

Throughout the year the Authority continued to work with the PA Department of Environmental Protection to implement its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. These plans were approved in July of 2007. The project design work was completed and submitted to the PA Department of Environmental Protection for review in July of 2009 and approved in July of 2010. Fifteen construction projects were put out for bid in February of 2011 and awarded in May. The project involves significant new treatment processes, pumping stations & interceptor lines with an associated capital cost of approximately sixty-two (62.5) million dollars, which is set to be completed in 2015. In order to prevent a huge increase in the sewer rates the Authority has chosen to issue a series of bonds at a rate of one per year. By doing this the Authority has been able to step the necessary rate increases over a period of several years.

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Management's Discussion and Analysis  
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**GENERAL TRENDS AND SIGNIFICANT EVENTS (Continued)**

To do this, a ten (10) million dollar bond was issued in 2009 and the rates were increased by \$0.74/1000 gallons, or 20.5%, a fourteen (14) million dollar bond was issued in 2010 which increased the rates \$0.86/1000 gallons, or 19.4%, a twenty-five (25) million dollar bond was issued in 2011 raising the rates \$0.80/1000 gallons, or 15.1%, two bonds were issued in 2012 totaling eleven (11) million dollars with no rate increase, and finally a fourteen (14) million dollar bond was issued in 2013 raising the rates \$1.75/1000 gallons, or 28%. In 2014 the Authority issued a \$6.4 million dollar bond to refund the Authority's outstanding Sewer Revenue Bonds Series of 2008, raising rates \$0.10/1000 gallons, or 1%, due to increased utility costs for operation of the new treatment plant processes that have gone online.

The US Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result the federal government funded the relocation of most of the CSO structures. Construction for Phase I of the project was completed in 2007 and phase (II) of the project was completed in 2010. One remaining outfall, Evans Avenue, remains to be raised to complete the project, however funding was not available in 2011 and currently still remains unfunded. The Authority's new outfall structures have greatly reduced the amount of river water that flows back through the pipes and into the sewer lines. This in return has reduced the costs associated with treating unnecessary water.

**CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, 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 customers of the Municipal Authority of the City of McKeesport. If you have questions about this report or wish to request additional financial information, please contact the Authority offices at 100 Atlantic Avenue, McKeesport, PA 15132, (412)-673-8276.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31,**

|                                                           | <u>2014</u>                  | <u>2013</u>                  |
|-----------------------------------------------------------|------------------------------|------------------------------|
| <b>ASSETS</b>                                             |                              |                              |
| <b>CURRENT ASSETS:</b>                                    |                              |                              |
| Cash and Cash Equivalents                                 | \$ 1,440,931                 | \$ 1,015,111                 |
| Cash and Cash Equivalents - Restricted                    | 70,363                       | 114,693                      |
| Sewage Service Receivable                                 | 1,771,506                    | 1,192,983                    |
| Delinquent Sewage Service Receivable - City of McKeesport | 192,458                      | 192,458                      |
| Allowance for Doubtful Accounts                           | (287,213)                    | -                            |
| Accrued Sewage Service (Unbilled)                         | 1,078,300                    | 1,153,934                    |
| Deposits                                                  | 3,000                        | 3,000                        |
| <b>TOTAL CURRENT ASSETS</b>                               | <b><u>\$ 4,269,345</u></b>   | <b><u>\$ 3,672,179</u></b>   |
| <b>RESTRICTED ASSETS:</b>                                 |                              |                              |
| Investments                                               | \$ 8,323,716                 | \$ 10,125,631                |
| <b>TOTAL RESTRICTED ASSETS</b>                            | <b><u>\$ 8,323,716</u></b>   | <b><u>\$ 10,125,631</u></b>  |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                     |                              |                              |
| Land                                                      | \$ 61,132                    | \$ 61,132                    |
| Infrastructure                                            | 33,502,793                   | 33,502,793                   |
| Buildings                                                 | 10,165,226                   | 10,159,726                   |
| Plant Machinery and Equipment                             | 7,955,983                    | 7,993,262                    |
| Office Machinery and Equipment                            | 143,791                      | 127,306                      |
| Vehicles and Equipment                                    | 1,354,294                    | 1,100,324                    |
|                                                           | <u>\$ 53,183,219</u>         | <u>\$ 52,944,543</u>         |
| Less: Accumulated Depreciation                            | (17,485,167)                 | (16,378,170)                 |
|                                                           | <u>\$ 35,698,052</u>         | <u>\$ 36,566,373</u>         |
| Construction in Progress                                  | 58,265,701                   | 56,523,141                   |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b>                  | <b><u>\$ 93,963,753</u></b>  | <b><u>\$ 93,089,514</u></b>  |
| <b>TOTAL ASSETS</b>                                       | <b><u>\$ 106,556,814</u></b> | <b><u>\$ 106,887,324</u></b> |
| <b>DEFERRED OUTFLOW OF RESOURCES</b>                      |                              |                              |
| Deferred Interest on Advance Refunding                    | \$ 1,512,821                 | \$ 1,574,971                 |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>               | <b><u>\$ 1,512,821</u></b>   | <b><u>\$ 1,574,971</u></b>   |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>    | <b><u>\$ 108,069,635</u></b> | <b><u>\$ 108,462,295</u></b> |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31,**  
**(CONTINUED)**

|                                            | <u>2014</u>                  | <u>2013</u>                  |
|--------------------------------------------|------------------------------|------------------------------|
| <b><u>LIABILITIES AND NET POSITION</u></b> |                              |                              |
| <b>CURRENT LIABILITIES:</b>                |                              |                              |
| Accounts Payable                           | \$ 349,186                   | \$ 678,020                   |
| Retainage Payable                          | 1,286,154                    | 1,924,418                    |
| Accrued Payroll and Taxes                  | 103,698                      | 92,370                       |
| Sewage Service Deposits                    | 2,550                        | 5,950                        |
| Accrued Interest                           | 137,801                      | 140,223                      |
| Capital Leases - Current Portion           | 163,390                      | 117,529                      |
| Current Portion of Bonds Payable           | 1,475,000                    | 1,400,000                    |
| <b>TOTAL CURRENT LIABILITIES</b>           | <b><u>\$ 3,517,779</u></b>   | <b><u>\$ 4,358,510</u></b>   |
| <b>LONG-TERM LIABILITIES:</b>              |                              |                              |
| Bonds Payable - Long Term Portion (Net)    | \$ 74,235,443                | \$ 75,051,396                |
| Pennvest Loan Payable                      | 13,377,200                   | 13,694,905                   |
| Sewer Revenue Note 2011                    | 546,934                      | 93,954                       |
| Capital Leases - Long Term Portion         | 198,453                      | 71,600                       |
| Net OPEB Liability                         | 602,595                      | 407,849                      |
| Compensated Absences                       | 148,297                      | 144,412                      |
| <b>TOTAL LONG-TERM LIABILITIES</b>         | <b><u>\$ 89,108,922</u></b>  | <b><u>\$ 89,464,116</u></b>  |
| <b>TOTAL LIABILITIES</b>                   | <b><u>\$ 92,626,701</u></b>  | <b><u>\$ 93,822,626</u></b>  |
| <b>NET POSITION:</b>                       |                              |                              |
| Net Investment in Capital Assets           | \$ 6,819,924                 | \$ 5,892,168                 |
| Restricted for Debt Service                | 5,569,004                    | 6,089,858                    |
| Unrestricted                               | 3,054,006                    | 2,657,643                    |
| <b>TOTAL NET POSITION</b>                  | <b><u>\$ 15,442,934</u></b>  | <b><u>\$ 14,639,669</u></b>  |
| <b>TOTAL LIABILITIES AND NET POSITION</b>  | <b><u>\$ 108,069,635</u></b> | <b><u>\$ 108,462,295</u></b> |

The accompanying notes are an integral part of these financial statements



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

|                                                                          | <u>2014</u>                  | <u>2013</u>                            |
|--------------------------------------------------------------------------|------------------------------|----------------------------------------|
| <b><u>OPERATING REVENUES</u></b>                                         |                              |                                        |
| Sewage Treatment Services                                                | \$ 13,068,117                | \$ 10,863,476                          |
| Sludge Hauling                                                           | 110,683                      | 97,750                                 |
| Tap Fees and Permits                                                     | 80,500                       | 21,250                                 |
| Miscellaneous                                                            | 54,729                       | 99,473                                 |
|                                                                          | <u>                    </u>  | <u>                    </u>            |
| <b>TOTAL OPERATING REVENUES</b>                                          | <b><u>\$ 13,314,029</u></b>  | <b><u>\$ 11,081,949</u></b>            |
| <b><u>OPERATING EXPENSES</u></b>                                         |                              |                                        |
| Personnel Costs                                                          | \$ 4,023,979                 | \$ 4,061,889                           |
| Professional Services                                                    | 255,492                      | 308,558                                |
| Sewage Plant Costs                                                       | 1,687,267                    | 1,861,463                              |
| Other General and Administrative                                         | 375,446                      | 398,879                                |
| Bad Debt Expense                                                         | 287,213                      | -                                      |
| Depreciation                                                             | 1,323,547                    | 1,317,124                              |
|                                                                          | <u>                    </u>  | <u>                    </u>            |
| <b>TOTAL OPERATING EXPENSES</b>                                          | <b><u>\$ 7,952,944</u></b>   | <b><u>\$ 7,947,913</u></b>             |
| <b>NET OPERATING INCOME BEFORE NON-OPERATING<br/>REVENUE AND EXPENSE</b> | <b><u>\$ 5,361,085</u></b>   | <b><u>\$ 3,134,036</u></b>             |
| <b><u>NON-OPERATING REVENUE AND (EXPENSE)</u></b>                        |                              |                                        |
| Interest Income                                                          | \$ 12,219                    | \$ 73,054                              |
| PENNVEST Grant Proceeds                                                  | 211,828                      | 2,593,712                              |
| Intergovernmental Agreement Fee                                          | (1,020,100)                  | (1,010,000)                            |
| Interest on Long-Term Debt                                               | (3,568,314)                  | (3,607,211)                            |
| Bond Issue Costs                                                         | (224,643)                    | (416,110)                              |
| Gain <Loss> on Disposal of Fixed Assets                                  | 31,190                       | (10,161)                               |
|                                                                          | <u>                    </u>  | <u>                    </u>            |
| <b>TOTAL NON-OPERATING REVENUE AND (EXPENSE)</b>                         | <b><u>\$ (4,557,820)</u></b> | <b><u>\$ (2,376,716)</u></b>           |
| <b>INCREASE &lt;DECREASE&gt; IN NET POSITION</b>                         | <b><u>\$ 803,265</u></b>     | <b><u>\$ 757,320</u></b>               |
| NET POSITION - JANUARY 1,                                                | 14,639,669                   | 16,196,656                             |
| Prior Period Adjustment                                                  | <u>                    -</u> | <u>                    (2,314,307)</u> |
| <b>NET POSITION - DECEMBER 31,</b>                                       | <b><u>\$ 15,442,934</u></b>  | <b><u>\$ 14,639,669</u></b>            |

The accompanying notes are an integral part of these financial statements

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                                                                                    | <u>2014</u>                       | <u>2013</u>                       |
|----------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                                 |                                   |                                   |
| Cash Received from Sewage Billings                                                                 | \$ 12,807,740                     | \$ 10,821,595                     |
| Cash Paid to Employees for Salaries and Benefits                                                   | (3,814,020)                       | (3,843,206)                       |
| Cash Paid to Suppliers for Goods and Services                                                      | (2,275,301)                       | (2,605,317)                       |
| <b>Net Cash Provided by Operating Activities</b>                                                   | <b><u>\$ 6,718,419</u></b>        | <b><u>\$ 4,373,072</u></b>        |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                             |                                   |                                   |
| (Increase) Decrease in Restricted Assets                                                           | \$ 1,801,915                      | \$ 6,243,138                      |
| Proceeds from Bond Issues                                                                          | 6,410,000                         | 13,715,000                        |
| Proceeds from Sewer Revenue Note                                                                   | 920,983                           | 4,612,761                         |
| Proceeds from Pennvest Loan                                                                        | 211,828                           | 2,593,712                         |
| Grant Proceeds                                                                                     | 211,828                           | 2,593,712                         |
| Proceeds from Capital Leases                                                                       | 376,718                           | 18,502                            |
| Principal Payments - Dravosburg                                                                    | -                                 | (75,000)                          |
| Bond Issue Costs                                                                                   | (224,643)                         | (643,044)                         |
| Principal Payments on Long-Term Debt                                                               | (8,251,540)                       | (25,670,349)                      |
| Interest Paid on Long-Term Debt                                                                    | (3,492,082)                       | (3,565,061)                       |
| Interest Deposited with Escrow Agent for Advance Refunding                                         | -                                 | (1,356,831)                       |
| Purchase of Property and Equipment (Net of Refund)                                                 | (3,294,056)                       | (11,093,756)                      |
| <b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>                    | <b><u>\$ (5,329,049)</u></b>      | <b><u>\$ (12,627,216)</u></b>     |
| <b><u>CASH FLOWS FROM NON CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                         |                                   |                                   |
| Intergovernmental Agreement Fee                                                                    | \$ (1,020,100)                    | \$ (1,010,000)                    |
| Insurance Reimbursement                                                                            | -                                 | 35,000                            |
| <b>Net Cash (Used for) Non Capital and Related Financing Activities</b>                            | <b><u>\$ (1,020,100)</u></b>      | <b><u>\$ (975,000)</u></b>        |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                                 |                                   |                                   |
| Interest Income Received                                                                           | \$ 12,220                         | \$ 73,054                         |
| <b>Net Cash Provided By Investing Activities</b>                                                   | <b><u>\$ 12,220</u></b>           | <b><u>\$ 73,054</u></b>           |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                        | <b>\$ 381,490</b>                 | <b>\$ (9,156,090)</b>             |
| CASH AND CASH EQUIVALENTS - JANUARY 1                                                              | 1,129,804                         | 10,285,894                        |
| <b>CASH AND CASH EQUIVALENTS - DECEMBER 31</b>                                                     | <b><u><u>\$ 1,511,294</u></u></b> | <b><u><u>\$ 1,129,804</u></u></b> |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>             |                                   |                                   |
| Net Operating Income                                                                               | \$ 5,361,085                      | \$ 3,134,036                      |
| <b>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:</b> |                                   |                                   |
| Depreciation                                                                                       | 1,323,547                         | 1,317,124                         |
| Bad Debt Expense                                                                                   | 287,213                           | -                                 |
| <b>Change in Current Assets and Liabilities:</b>                                                   |                                   |                                   |
| (Increase) Decrease in Accounts Receivable                                                         | (502,889)                         | (295,004)                         |
| Increase (Decrease) in Accounts Payable                                                            | 42,904                            | (1,419)                           |
| Increase (Decrease) in Accrued Expenses                                                            | 11,328                            | 1,445                             |
| Increase (Decrease) in Sewage Service Deposits                                                     | (3,400)                           | (350)                             |
| Increase (Decrease) in Net OPEB Obligation                                                         | 194,746                           | 200,795                           |
| Increase (Decrease) in Accumulated Compensated Absences                                            | 3,885                             | 16,445                            |
| <b>Net Cash Provided by Operating Activities</b>                                                   | <b><u><u>\$ 6,718,419</u></u></b> | <b><u><u>\$ 4,373,072</u></u></b> |

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

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

The Municipal Authority of the City of McKeesport (the Authority) is a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipality Authorities Act of 1945. The Act was repealed by the Act 22 of June 19, 2001 (P.L. 287, No. 22). The Council of the City of McKeesport (the City) created the Authority on November 29, 1949 under an order from the Sanitary Water Board of the Commonwealth of Pennsylvania. The Authority was created for a period of 50 years to end December 5, 1999, and was subsequently extended through December 5, 2057. The Authority was created for the purpose of acquiring, holding, constructing, improving, maintaining and operating, owning and leasing (either in capacity as lessor or lessee) certain projects. These projects include sewers, sewer systems or parts thereof, sewage treatment works, also including the acquisition of land for sewage treatment works and pumping stations, and all other necessary facilities and apparatus that the Board of Directors may authorize as necessary for the project. The Authority provides waste collection and treatment services, under agreement, for the following municipalities:

|                         |                          |
|-------------------------|--------------------------|
| City of McKeesport      | White Oak Borough        |
| Port Vue Borough        | Liberty Borough          |
| East McKeesport Borough | Elizabeth Authority      |
| Glassport Borough       | Lincoln Borough          |
| Versailles Borough      | North Versailles Borough |
| City of Duquesne        | Dravosburg Borough       |

Per the terms of these agreements, the Authority is the provider of sewage treatment and disposal service to the above municipalities, and these municipalities have agreed to construct and maintain such sewers, interceptors and pumping stations as is necessary to bring the sewage and industrial waste to a point where it flows into the interceptors of the Authority.

The five-members of the Authority Board of Directors are appointed by the members of Council of the City of McKeesport. Revenue or other cash received must be disbursed in accordance with provisions of the Trust Indentures dated October 1, 2006, as amended and supplemented by the First Supplemental Trust Indenture dated as of October 2, 2008, as amended and supplemented by the Second Supplemental Trust Indenture dated as of December 1, 2009, as amended and supplemented by the Third Supplemental Trust Indenture dated as of December 28, 2010, as amended and supplemented by the Fourth Supplemental Trust Indenture dated August 31, 2011, as amended and supplemented by the Fifth Supplemental Trust Indenture dated January 5, 2012, as amended and supplemented by the Sixth Supplemental Trust Indenture dated August 23, 2012, as amended and supplemented by the Seventh Supplemental Trust Indenture dated January 16, 2013, and as amended and supplemented by the Eighth Supplemental Trust Indenture dated February 19, 2014 by and between the Authority and the Bank of New York Mellon Trust Company as trustee, securing the Sewer Revenue Bonds Series of 2009, 2010, 2011, 2012, 2012B, 2013 and 2014 respectively.

The financial statement of the Municipal Authority of the City of McKeesport 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). During 2013, the Authority adopted the provisions of Government Accounting Standards Board (GASB) No. 65, 'Items Previously Reported as Assets and Liabilities' and GASB No. 66, 'Technical Corrections, an Amendment of GASB Statements No. 10 and 62'.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

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 Municipal Authority of the City of McKeesport consists of all funds, departments, boards and agencies that are not legally separate from the Authority. As defined by GASB No. 14, component units are legally separate entities that 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 these criteria, the Municipal Authority of the City of McKeesport has no component units.

**BASIS OF ACCOUNTING**

The Authority is accounted for as an enterprise fund since its operations are financed and operated in a manner similar to the private sector. 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**

For the purposes of the statement of cash flows, 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. Cash and cash equivalents – restricted represents the balance of PNC Sewer Revenue Note funds (Note 4) and funds received from the Pennsylvania Infrastructure Investment Authority (Note 4) restricted for the Authority's Waste Water Treatment Plant (WWTP) expansion project.

**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.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

**INVESTMENTS (Continued)**

In addition, the Board of Directors can invest the Authority's sinking funds as authorized for local governments in the Local government Unit Debt Act, 53 Pa.C.S. 8224. Investment of the Authority's restricted assets are made pursuant to and restricted by the aforementioned Trust Indentures securing the Sewer Revenue Bonds Series of 2009, 2010, 2011, 2012, 2012B, 2013, and 2014. Investments for 2014 and 2013 (See Restricted Assets) include Dreyfus Government cash management agency fund shares, certificates of deposit, corporate notes, fixed income investments with the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. Investments are stated at fair value. The Authority is in compliance with these restrictions as of December 31, 2014 and 2013.

**RESTRICTED ASSETS**

In accordance with the provisions of the aforementioned Trust Indentures, by and between the Bank of New York Mellon Trust Company and the Municipal Authority of the City of McKeesport, which secure the Authority's Sewer Revenue Bonds, the Authority is obligated to restrict certain funds to pay for construction related expenditures and to meet debt service requirements. These funds are reflected in Exhibit A as 'restricted assets' and are further detailed in Note 2.

**ACCOUNTS RECEIVABLE**

Accounts receivable are stated at net realizable value. Receivables are mainly comprised of billed and unbilled sewage services rendered to the participating municipalities as herein described in Note 1. Management utilizes the allowance method for charging bad debt expense to operations for customer accounts receivable. Management estimates a provision for bad debts of \$287,213 for the year ended December 31, 2014.

**INVENTORY**

The Authority does not maintain a physical inventory of materials, chemicals, and other supplies. Management estimates that inventory values during the year are minimal for cost control purposes. Accordingly, management is of the opinion that any value that existed at December 31, 2014 and 2013 would not materially affect the financial position of the Authority.

**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.

**UNEARNED REVENUE**

Unearned revenue arises when the Authority receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the unearned revenue liability is removed and revenue is recognized.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

**LONG-TERM DEBT FINANCING COSTS**

Bond issuance costs are recorded as expenditures in the financial statements in the year paid. During the 2014 calendar year, the Authority paid \$224,643 in bond issuance costs as reflected on the statement of revenues, expenditures, and changes in net position (Exhibit B).

**PROPERTY, PLANT, AND EQUIPMENT**

The Authority records property, plant and equipment purchases at cost. Property, plant and equipment include major betterments that extend the economic useful life of the assets affected. The Authority maintains a capitalization threshold of \$500. Routine repair and maintenance costs are charged to operations as incurred. Depreciation expense is calculated on a straight-line basis over the estimated useful life of the asset as follows:

|                         |            |
|-------------------------|------------|
| Infrastructure          | 50 Years   |
| Buildings               | 40 Years   |
| Machinery and Equipment | 3-20 Years |
| Vehicles                | 7-10 Years |

Depreciation expense for the year ended December 31, 2014 and 2013 was \$1,323,547 and 1,317,124 respectively. Construction in progress represents funds paid toward the following Authority projects:

|                                             | <u>12/31/2014</u>    | <u>12/31/2013</u>    |
|---------------------------------------------|----------------------|----------------------|
| Act 537 System Improvements Project:        |                      |                      |
| Engineering and Other Professional Fees     | \$ 4,502,330         | \$ 4,107,989         |
| WWTP Expansion Project                      | 32,020,182           | 30,827,989           |
| Pump Stations Construction                  | 17,575,682           | 17,419,656           |
| East/West Shore Sanitary Sewer Construction | 1,506,357            | 1,506,357            |
| Rotary Press Project                        | 867,570              | 867,570              |
| River Crossing Force Main                   | 1,793,580            | 1,793,580            |
|                                             | <u>\$ 58,265,701</u> | <u>\$ 56,523,141</u> |

**NET POSITION**

Net Position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy Authority obligations. Net Position is classified as follows:

- 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 Net Position – This component of Net Position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.
- Unrestricted – Consists of all other Net Position that does not meet the definition of ‘restricted’ or ‘net investment in capital assets’.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

**NET POSITION (Continued)**

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.

**DEFERRED OUTFLOWS AND INFLOWS 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 so will not be recognized as an outflow and/or inflow of resources (expense/expenditure or income/revenue) in the current period.

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Municipal Authority of the City of McKeesport, these revenues are sewer user charges, sludge hauling fees, tap-in fees, and other miscellaneous revenues generated from operating activities. Operating expenses are the necessary costs incurred to operate the Authority. Non-operating revenues of the Authority consist of grant and interest revenue. Non-operating expenses consist of interest on long-term debt and bond issuance cost expense.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**CASH DEPOSITS:**

At December 31, 2014 and 2013, the Authority had the following bank balances and carrying value on its' cash and cash equivalent accounts:

|                                                                    | <b>--- December 31, 2014 ---</b> |                           | <b>--- December 31, 2013 ---</b> |                           |
|--------------------------------------------------------------------|----------------------------------|---------------------------|----------------------------------|---------------------------|
|                                                                    | <b>Bank<br/>Balance</b>          | <b>Carrying<br/>Value</b> | <b>Bank<br/>Balance</b>          | <b>Carrying<br/>Value</b> |
| Cash and Cash<br>Equivalents                                       | \$ 1,388,096                     | \$ 1,511,294              | \$ 1,140,937                     | \$ 1,129,804              |
| Certificates of Deposit<br>(Shown as part of<br>Restricted Assets) | <u>4,655,000</u>                 | <u>4,655,000</u>          | <u>3,385,070</u>                 | <u>3,385,070</u>          |
|                                                                    | <u>\$ 6,043,096</u>              | <u>\$ 6,166,294</u>       | <u>\$ 4,526,007</u>              | <u>\$ 4,514,874</u>       |

The difference between the bank balance and the carrying value represents 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.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

**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, 2014 and 2013, \$1,138,096 and \$890,937 respectively of the Authority's bank balance totals are exposed to custodial credit risk as these amounts represent 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.

**INVESTMENTS:**

The fair value and maturity term of the Authority's investments as of December 31, 2014 and 2013 is as follows:

|                          | ----- December 31, 2014 ----- |              |              |
|--------------------------|-------------------------------|--------------|--------------|
|                          | No Stated                     |              |              |
|                          | Fair Value                    | Maturity     | 0-1 Years    |
| Dreyfus Cash Mgt Funds   | \$ 1,020,442                  | \$ 1,020,442 | \$ -         |
| U.S. Agency Fixed Income | 2,648,274                     | -            | 2,648,274    |
|                          | \$ 3,668,716                  | \$ 1,020,442 | \$ 2,648,274 |
|                          | ----- December 31, 2013 ----- |              |              |
|                          | No Stated                     |              |              |
|                          | Fair Value                    | Maturity     | 0-1 Years    |
| Dreyfus Cash Mgt Funds   | \$ 3,240,399                  | \$ 3,240,399 | \$ -         |
| U.S. Agency Fixed Income | 3,500,162                     | -            | 3,500,162    |
|                          | \$ 6,740,561                  | \$ 3,240,399 | \$ 3,500,162 |

Investments classified as U.S. Agencies are securities of agencies of the U.S. Government that have an implied but not explicit guarantee.

**Credit Risk:**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has no formal investment policy that limits its investment choices based on credit ratings by nationally recognized rating organizations. As of December 31, 2014 and 2013, investments in U.S. Agencies and Corporate Notes have received an 'AA+' rating from Standard & Pools.

**Custodial Credit Risk:**

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

**INVESTMENTS: (Continued)**

**Custodial Credit Risk: (Continued)**

The Authority's investments in Dreyfus Cash Management Agency Funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Authority does not have a formal investment policy for custodial credit risk.

**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. The Authority's certificate of deposit, corporate note, and U.S. Agency fixed income security investments have maturity terms of less than 1 year.

**Concentration of Credit Risk:**

The Authority places no limit on the amount it may invest in any one issuer.

The Authority's restricted assets as of December 31, 2014 and 2013 are comprised of the following:

|                    | <u>12/31/2014</u>   | <u>12/31/2013</u>    |
|--------------------|---------------------|----------------------|
| Construction Funds | \$ 2,752,803        | \$ 4,035,773         |
| Clearing Fund      | 1,909               | -                    |
| Debt Service Funds | 5,569,004           | 6,089,858            |
|                    | <u>\$ 8,323,716</u> | <u>\$ 10,125,631</u> |

**NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT**

The following comprises the changes to the Authority's property, plant, and equipment account during 2014 and 2013:

|                                | <u>Balance</u><br><u>1/1/2014</u> | <u>Additions</u>    | <u>Deletions</u>    | <u>Balance</u><br><u>12/31/2014</u> |
|--------------------------------|-----------------------------------|---------------------|---------------------|-------------------------------------|
| Land                           | \$ 61,132                         | \$ -                | \$ -                | \$ 61,132                           |
| Infrastructure                 | 33,502,793                        | -                   | -                   | 33,502,793                          |
| Buildings                      | 10,159,726                        | 5,500               | -                   | 10,165,226                          |
| Plant Machinery and Equipment  | 7,993,262                         | 17,096              | (54,375)            | 7,955,983                           |
| Office Machinery and Equipment | 127,306                           | 20,470              | (3,985)             | 143,791                             |
| Vehicles and Equipment         | 1,100,324                         | 421,970             | (168,000)           | 1,354,294                           |
|                                | <u>\$ 52,944,543</u>              | <u>\$ 465,036</u>   | <u>\$ (226,360)</u> | <u>\$ 53,183,219</u>                |
| Less: Accumulated Depreciation | (16,378,170)                      | (1,323,547)         | 216,550             | (17,485,167)                        |
|                                | <u>\$ 36,566,373</u>              | <u>\$ (858,511)</u> | <u>\$ (9,810)</u>   | <u>\$ 35,698,052</u>                |
| Construction in Progress       | 56,523,141                        | 1,742,560           | -                   | 58,265,701                          |
|                                | <u>\$ 93,089,514</u>              | <u>\$ 884,049</u>   | <u>\$ (9,810)</u>   | <u>\$ 93,963,753</u>                |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT (Continued)**

|                                | <b>Balance<br/>1/1/2013</b> | <b>Additions</b>     | <b>Deletions</b>   | <b>Balance<br/>12/31/2013</b> |
|--------------------------------|-----------------------------|----------------------|--------------------|-------------------------------|
| Land                           | \$ 61,132                   | \$ -                 | \$ -               | \$ 61,132                     |
| Infrastructure                 | 33,159,918                  | 342,875              | -                  | 33,502,793                    |
| Buildings                      | 10,141,872                  | 17,854               | -                  | 10,159,726                    |
| Plant Machinery and Equipment  | 7,951,625                   | 46,045               | (4,408)            | 7,993,262                     |
| Office Machinery and Equipment | 114,890                     | 12,416               | -                  | 127,306                       |
| Vehicles and Equipment         | 1,112,547                   | 18,502               | (30,725)           | 1,100,324                     |
|                                | <u>\$ 52,541,984</u>        | <u>\$ 437,692</u>    | <u>\$ (35,133)</u> | <u>\$ 52,944,543</u>          |
| Less: Accumulated Depreciation | (15,086,018)                | (1,317,124)          | 24,972             | (16,378,170)                  |
|                                | <u>\$ 37,455,966</u>        | <u>\$ (879,432)</u>  | <u>\$ (10,161)</u> | <u>\$ 36,566,373</u>          |
| Construction in Progress       | 44,364,174                  | 12,158,967           | -                  | 56,523,141                    |
|                                | <u>\$ 81,820,140</u>        | <u>\$ 11,279,535</u> | <u>\$ (10,161)</u> | <u>\$ 93,089,514</u>          |

**NOTE 4 – LONG-TERM DEBT**

**SEWER REVENUE BONDS – SERIES OF 2009**

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 under the terms of a Trust Indenture dated December 1, 2009, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$10,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

**SEWER REVENUE BONDS – SERIES OF 2010**

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 2.0 and 5.16%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2040.

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**NOTE 4 – LONG-TERM DEBT (Continued)**

**SEWER REVENUE BONDS – SERIES OF 2011**

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.25 and 5.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2030.

**SEWER REVENUE BONDS – SERIES OF 2012**

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036.

**SEWER REVENUE BONDS – SERIES B OF 2012**

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033.

**SEWER REVENUE BONDS – SERIES OF 2013**

In January of 2013, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2013 under the terms of a Trust Indenture dated January 16, 2013, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$13,715,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2010, 2) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2011, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at an interest rate of 4.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2041.

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**NOTE 4 – LONG-TERM DEBT (Continued)**

**SEWER REVENUE BONDS – SERIES OF 2014**

In January of 2014, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2014 under the terms of a Trust Indenture dated February 19, 2014, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$6,410,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2008, 2) fund construction and/or acquisition of capital additions, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at interest rates ranging between 1.0% and 4.65%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2039.

The following summarizes the Authority's bond debt service obligations of the Authority as of December 31, 2014:

| Year      | 2009<br>Principal   | 2010<br>Principal    | 2011<br>Principal    | 2012<br>Principal   |
|-----------|---------------------|----------------------|----------------------|---------------------|
| 2015      | \$ 175,000          | \$ 20,000            | \$ 1,060,000         | \$ 185,000          |
| 2016      | 185,000             | 25,000               | 1,085,000            | 190,000             |
| 2017      | 190,000             | 45,000               | 1,110,000            | 190,000             |
| 2018      | 200,000             | 65,000               | 1,145,000            | 195,000             |
| 2019      | 210,000             | 85,000               | 1,190,000            | 200,000             |
| 2020-2024 | 1,210,000           | 825,000              | 6,735,000            | 1,075,000           |
| 2025-2029 | 1,550,000           | 1,045,000            | 8,395,000            | 1,275,000           |
| 2030-2034 | 2,045,000           | 2,165,000            | 1,925,000            | 1,535,000           |
| 2035-2039 | 3,900,000           | 6,440,000            | -                    | 705,000             |
| 2040-2041 | -                   | 3,065,000            | -                    | -                   |
|           | <u>\$ 9,665,000</u> | <u>\$ 13,780,000</u> | <u>\$ 22,645,000</u> | <u>\$ 5,550,000</u> |

| Year      | 2012 B<br>Principal | 2013<br>Principal    | 2014<br>Principal   | Interest             | Total                 |
|-----------|---------------------|----------------------|---------------------|----------------------|-----------------------|
| 2015      | \$ 5,000            | \$ -                 | \$ 30,000           | \$ 3,608,748         | \$ 5,083,748          |
| 2016      | 5,000               | -                    | 30,000              | 3,574,641            | 5,094,641             |
| 2017      | 5,000               | -                    | 30,000              | 3,538,754            | 5,108,754             |
| 2018      | 5,000               | -                    | 30,000              | 3,492,388            | 5,132,388             |
| 2019      | 5,000               | -                    | 30,000              | 3,431,244            | 5,151,244             |
| 2020-2024 | 25,000              | -                    | 175,000             | 16,043,518           | 26,088,518            |
| 2025-2029 | 25,000              | -                    | 730,000             | 13,570,250           | 26,590,250            |
| 2030-2034 | 4,565,000           | 1,720,000            | 2,355,000           | 10,036,103           | 26,346,103            |
| 2035-2039 | -                   | 6,340,000            | 2,925,000           | 5,382,383            | 25,692,383            |
| 2040-2041 | -                   | 5,655,000            | -                   | 573,350              | 9,293,350             |
|           | <u>\$ 4,640,000</u> | <u>\$ 13,715,000</u> | <u>\$ 6,335,000</u> | <u>\$ 63,251,379</u> | <u>\$ 139,581,379</u> |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**DEFERRED FINANCING COSTS AND BOND PREMIUMS**

The bond discounts in connection with the Authority's currently outstanding bond issues totaled \$1,466,506. This amount is being amortized on a straight-line basis over the life of the bond issues and is charged as a component of interest expense in the statement of revenues, expenses and changes in net position. The unamortized amount of bond discount at December 31, 2014 and 2013 totaling \$1,292,670 and \$1,234,682 respectively, is reflected in Exhibit A as a reduction in 'bonds payable - long-term portion'. The amount of discount charged to interest expense was \$59,469 and \$46,206 for 2014 and 2013 respectively.

The bond premium in connection with the Series of 2011 Sewer Revenue Bonds was \$816,328. This amount is being accreted on a straight-line basis over the life of the bond issue and is credited as a component of interest expense in the statement of revenues, expenses and changes in net position. The un-accreted amount of bond premium was \$673,113 and \$716,078 for at December 31, 2014 and 2013 respectively, and is reflected in Exhibit A as an addition to 'bonds payable - long-term portion'. The amount of premium credited to interest expense was \$42,965 for 2014 and 2013.

In connection with the issuance of Sewer Revenue Bonds – Series B of 2012 and Series of 2013, the Authority entered into irrevocable trust agreements with the Bank of New York Mellon Trust Company to purchase U.S. Government Securities in an amount sufficient to fully service a portion of the Series of 2008, Series of 2010, and Series of 2011 Sewer Revenue Bond Issue debt as they mature or are called. For financial reporting purposes, these bonds are considered defeased and therefore removed as a liability from the Authority's financial statements.

The difference between the defeased debt and the reacquisition price (amount deposited with escrow agent for refunding purposes) totaling \$1,627,427, is considered 'deferred interest' and is being amortized over the life of the new bond issue. The annual amortization of this deferred interest, \$62,150 for 2014 and \$29,571 for 2013, is reflected as a component of interest expense in the Statement of Revenues, Expenses and Changes in Net Position (Exhibit B). The unamortized amount of deferred interest at December 31, 2013 and December 31, 2014 totaling \$1,574,971 and \$1,512,821 respectively is reflected in Exhibit A as 'Deferred Outflows of Resources'.

**SEWER REVENUE NOTE – SERIES OF 2011**

In June of 2011, the Authority issued Sewer Revenue Note - Series of 2011 to PNC Bank in the amount of \$5,000,000. The Note was subsequently amended in December of 2011 to increase the amount to \$10,000,000. The purpose of the Note was to pay for the costs of the Authority's Waste Water Treatment Plant (WWTP) expansion costs in advance of receiving permanent financing from the Pennsylvania Infrastructure Investment Authority (see Note 11). The Note bears interest at a variable rate (currently 2.4375%) equal to 75% of the Bank's Prime Rate. As of December 31, 2014, the outstanding balance on this Note obligation is \$546,934.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 4 – LONG-TERM DEBT** (Continued)

**PENNVEST**

On January 5, 2012, the Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest to cover the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. The Authority has drawn down \$14,261,912 on the loan as of December 31, 2014. This loan has not been final amortized as of December 31, 2014. The outstanding balance as of December 31, 2014 is \$13,377,200.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In November of 2012, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a Backhoe and a Dump Truck for \$161,829. The terms of the lease call for 5 annual payments of \$33,854.24 at an annual interest rate of 2.3%. The lease is scheduled to expire in November of 2016.

**CAPITAL LEASE – ALLY FINANCIAL**

In March of 2013, the Authority entered into a capital lease agreement with Ally Financial for the purchase of a Chevrolet Silverado for \$18,501.80. The terms of the lease call for 3 annual payments of \$6,579.50 at an annual interest rate of 6.84%. The lease is scheduled to expire in March of 2015.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In March of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2014 Vactor Truck for \$352,801. The terms of the lease call for 12 quarterly payments of \$30,242.80 at an annual interest rate of 2.8%. The lease is scheduled to expire in March of 2017.

**CAPITAL LEASE – PNC EQUIPMENT FINANCE**

In May of 2014, the Authority entered into a capital lease agreement with PNC Equipment Finance for the purchase of a 2013 Chevrolet Silverado for \$23,917. The terms of the lease call for 3 annual payments of \$8,309.51 at an annual interest rate of 2.1%. The lease is scheduled to expire in May of 2017.

A schedule of the future minimum lease rental payments as of December 31, 2014 is as follows:

| <b>Year</b> | <b>2012<br/>PNC<br/>Principal</b> | <b>2013<br/>Ally<br/>Financial<br/>Principal</b> | <b>2014<br/>PNC<br/>Principal</b> | <b>2014<br/>PNC<br/>Principal</b> | <b>Interest</b> | <b>Total</b>      |
|-------------|-----------------------------------|--------------------------------------------------|-----------------------------------|-----------------------------------|-----------------|-------------------|
| 2015        | \$ 32,349                         | \$ 6,158                                         | \$ 7,807                          | \$ 117,076                        | \$ 6,324        | \$ 169,714        |
| 2016        | 33,093                            | -                                                | 7,971                             | 119,138                           | 2,932           | 163,134           |
| 2017        | -                                 | -                                                | 8,139                             | 30,112                            | 303             | 38,554            |
|             | <u>\$ 65,442</u>                  | <u>\$ 6,158</u>                                  | <u>\$ 23,917</u>                  | <u>\$ 266,326</u>                 | <u>\$ 9,559</u> | <u>\$ 371,402</u> |

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 4 – LONG-TERM DEBT (Continued)**

**DRAVOSBURG SEWER SYSTEM AND TREATMENT PLANT**

On December 28, 2010, the Authority entered into agreement with the Borough of Dravosburg for the purchase of the Borough's sanitary sewer system and wastewater treatment plant in the amount of \$330,000 effective January 1, 2011. The terms of the agreement call for the advance payment of \$180,000 in 2011 with two subsequent payments of \$75,000 on January 1, 2012 and 2013 respectively. The final payment of \$75,000 was made to the Borough of Dravosburg in 2013.

The following represents the changes in the Authority's long-term debt obligations during 2014 and 2013:

|                | <b>Balance<br/>1/1/2014</b> | <b>Additions</b>           | <b>Deletions</b>             | <b>Balance<br/>12/31/2014</b> | <b>Due Within One<br/>Year</b> |
|----------------|-----------------------------|----------------------------|------------------------------|-------------------------------|--------------------------------|
| Bonds          | \$ 76,970,000               | \$ 6,410,000               | \$ (7,050,000)               | \$ 76,330,000                 | \$ 1,475,000                   |
| Notes          | 13,788,859                  | 1,132,811                  | (997,536)                    | 13,924,134                    | -                              |
| Capital Leases | 189,129                     | 376,718                    | (204,004)                    | 361,843                       | 117,529                        |
|                | <b><u>\$ 90,947,988</u></b> | <b><u>\$ 7,919,529</u></b> | <b><u>\$ (8,251,540)</u></b> | <b><u>\$ 90,615,977</u></b>   | <b><u>\$ 1,592,529</u></b>     |

|                | <b>Balance<br/>1/1/2013</b> | <b>Additions</b>            | <b>Deletions</b>              | <b>Balance<br/>12/31/2013</b> | <b>Due Within<br/>One Year</b> |
|----------------|-----------------------------|-----------------------------|-------------------------------|-------------------------------|--------------------------------|
| Bonds          | \$ 75,845,000               | \$ 13,715,000               | \$ (12,590,000)               | \$ 76,970,000                 | \$ 1,400,000                   |
| Note           | 19,548,795                  | 7,206,473                   | (12,966,409)                  | 13,788,859                    | -                              |
| Dravosburg     | 75,000                      | -                           | (75,000)                      | -                             | -                              |
| Capital Leases | 284,566                     | 18,502                      | (113,939)                     | 189,129                       | 117,529                        |
|                | <b><u>\$ 95,753,361</u></b> | <b><u>\$ 20,939,975</u></b> | <b><u>\$ (25,745,348)</u></b> | <b><u>\$ 90,947,988</u></b>   | <b><u>\$ 1,517,529</u></b>     |

**NOTE 5 – LEASE RENTAL EXPENSE**

On October 17, 2008, the Authority entered into a lease purchase agreement with the City of McKeesport, effective January 1, 2009, for the purchase of the City's sanitary collection system. In connection with that agreement, the Authority agreed to also pay, on a monthly basis, the outstanding balance due on two (2) loans the City has with the Pennsylvania Infrastructure Investment Authority (PENNVEST) related to improvements made to the collection system. The current monthly payments total \$26,019. During the calendar years 2014 and 2013, the Authority reimbursed the City \$312,491 and \$312,166 respectively for these PENNVEST loans. The remaining principal amounts due on these loans, per amortization schedules received from the City, total approximately \$3,756,026 at December 31, 2014.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 5 – LEASE RENTAL EXPENSE (Continued)**

The following represents the minimum lease rental payments remaining on this obligation as of December 31, 2014:

| <u>Year</u> | <u>AMOUNT</u>       |
|-------------|---------------------|
| 2015        | \$ 312,436          |
| 2016        | 312,436             |
| 2017        | 312,436             |
| 2018        | 312,436             |
| 2019        | 312,436             |
| 2020-2024   | 1,249,744           |
| 2025-2028   | 944,102             |
|             | <u>\$ 3,756,026</u> |

**NOTE 6 – ACCUMULATED COMPENSATED ABENCES**

In accordance with the terms of the collective bargaining agreement between the Authority and the Utility Workers Union of America, AFL-CIO, all regular full-time employees are entitled to receive payment for the value of all unused vacation days upon separation of service from the Authority at the employee's regular daily rate. This practice also applies to administrative personnel not covered under the terms of the bargaining agreement. As of December 31, 2014 and 2013, the value of accumulated compensated absences totaled \$148,297 and \$144,412 respectively.

**NOTE 7 – TRANSACTIONS WITH THE CITY OF MCKEESPORT**

The Authority entered into an agreement with the City of McKeesport dated December 29, 1949, as amended June 2, 1992, to provide sewage treatment services to the City and to pay the City \$30,000 annually for the maintenance cost of the sewers located within the City. In addition, during 2008, the Authority was responsible for paying the City a quarterly administrative fee, based on water usage, for the City to bill and collect certain fees from its customers within the City. Effective February 1, 2009, the Authority began billing and collecting these fees directly to the customers within the City of McKeesport. In addition, the Authority paid the City of McKeesport \$600,000 for the estimated value of collectible delinquent sewage fees outstanding. This amount, less delinquent collections in 2014 and 2013, is reflected in the statement of net position as 'Delinquent Sewage Service Receivable – City of McKeesport' totaling \$192,458.

**NOTE 8 - AUTHORITY PENSION PLAN**

The Authority established a single-employer defined benefit pension plan on March 1, 1964, as amended, to provide retirement benefits to eligible employees of the Authority.



**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

Plan membership as of January 1, 2013 was comprised of:

|                                                                         |                  |
|-------------------------------------------------------------------------|------------------|
| Active employees                                                        | 51               |
| Retirees and beneficiaries currently receiving benefits                 | 16               |
| Terminated employees entitled to benefits<br>but not yet receiving them | <u>1</u>         |
| Total                                                                   | <u><u>68</u></u> |

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

- PARTICIPANTS** - All employees of the Authority who customarily work at least 20 hours per week and at least 5 months per year.
- ELIGIBILITY** - All participants are eligible for retirement benefits provided that they have attained the age of 62 and have completed 10 years of continuous service. Participants are eligible for early retirement at age 55 with 20 years of continuous service.
- VESTING** - Vesting occurs on a sliding scale with full vesting occurring after 20 years of service.
- BENEFITS** - 50% of Average Compensation multiplied by participants short service percentage (effective 1/1/2008).
- DEATH BENEFIT** - The plan provides for beneficiary benefits named by the participant under options as detailed in the retirement plan.
- FUNDING** - Member contributions equal 3.5% (3% for 2013) of compensation in 2014 and are slated to rise to 4% in 2015. Members contributed \$74,621 and \$72,247 to the plan during 2014 and 2013 respectively. Pension expense of the Authority totaled \$352,176 for 2014 and \$341,096 for 2013.

The investment income of the plan was used to fund administrative costs. There are no long-term contracts for contributions as of December 31, 2014 and 2013. In addition, there are no assets legally reserved for purposes other than the payment of plan member benefits. The plan does not issue a stand-alone report.

The significant assumptions employed in the most recent actuarial valuation (dated 1/1/2013) to determine funding included the use of an 8% interest rate and a salary projection of 4.5%. The pension plan uses the Entry Age Normal Actuarial Cost Method. Net assets available for benefits as of January 1, 2013 were \$4,737,232.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

A schedule of the Authority's annual required contributions (ARC) to the plan is as follows:

| <u>Year</u> | <u>ARC</u> | <u>% Contributed</u> |
|-------------|------------|----------------------|
| 2014        | \$ 352,176 | 100%                 |
| 2013        | 341,096    | 100%                 |
| 2012        | 309,526    | 100%                 |
| 2011        | 220,395    | 145%                 |
| 2010        | 40,052     | 100%                 |
| 2009        | 17,202     | 100%                 |
| 2008        | 7,166      | 100%                 |
| 2007        | 83,326     | 100%                 |
| 2006        | 98,910     | 100%                 |
| 2005        | 92,823     | 100%                 |

Historical trend information, designed to provide information about the plan's progress made accumulating sufficient assets to pay benefits when due, is as follows:

|                                                     | <u>(A)</u>                                           | <u>(B)</u>                                             | <u>(B-A)</u><br><u>(UAAL)</u>                                             | <u>(A/B)</u>                  | <u>(C)</u>                       | <u>(B-A)/C</u>                                                      |
|-----------------------------------------------------|------------------------------------------------------|--------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------|----------------------------------|---------------------------------------------------------------------|
| <u>ACTUARIAL</u><br><u>VALUATION</u><br><u>DATE</u> | <u>ACTUARIAL</u><br><u>VALUE OF</u><br><u>ASSETS</u> | <u>ACTUARIAL</u><br><u>ACCRUED</u><br><u>LIABILITY</u> | <u>UNFUNDED</u><br><u>ACTUARIAL</u><br><u>ACCRUED</u><br><u>LIABILITY</u> | <u>FUNDED</u><br><u>RATIO</u> | <u>COVERED</u><br><u>PAYROLL</u> | <u>UAAL AS A</u><br><u>% OF</u><br><u>COVERED</u><br><u>PAYROLL</u> |
| 1/1/05                                              | \$ 4,264,511                                         | \$ 4,049,779                                           | \$ (214,732)                                                              | 105%                          | \$ 1,065,402                     | -20%                                                                |
| 1/1/07                                              | 5,105,407                                            | 4,262,176                                              | (843,231)                                                                 | 120%                          | 1,063,399                        | -79%                                                                |
| 1/1/09                                              | 4,528,958                                            | 5,065,447                                              | 536,489                                                                   | 89%                           | 1,312,812                        | 41%                                                                 |
| 1/1/11                                              | 4,331,884                                            | 5,578,758                                              | 1,246,874                                                                 | 78%                           | 1,804,894                        | 69%                                                                 |
| 1/1/13                                              | 4,469,879                                            | 6,843,691                                              | 2,373,812                                                                 | 65%                           | 2,551,011                        | 93%                                                                 |

The following shows the components of the Authority's net pension obligation (NPO) for the latest three calendar years:

|                                            | <u>2010</u>        | <u>2011</u>         | <u>2012</u>         |
|--------------------------------------------|--------------------|---------------------|---------------------|
| Annual required contribution               | \$ 40,052          | \$ 220,395          | \$ 309,526          |
| Interest on net pension obligation         | (1,764)            | (1,699)             | (9,538)             |
| Adjustment to annual required contribution | 2,575              | 2,266               | 12,415              |
| Annual pension cost (expense)              | \$ 40,863          | \$ 220,962          | \$ 312,403          |
| Contributions made                         | 40,052             | 318,960             | 309,526             |
| (Decrease) in net pension obligation       | \$ 811             | \$ (97,998)         | \$ 2,877            |
| Net Pension Obligation - January 1         | (22,044)           | (21,233)            | (119,231)           |
| Net Pension Obligation - December 31       | <u>\$ (21,233)</u> | <u>\$ (119,231)</u> | <u>\$ (116,354)</u> |

The above calculation utilized an assumed interest rate of 8% for 2010-2012. The amortization period was 15, 18, and 19 years respectively, and the amortization factor was 8.5595, 9.3719, and 9.6036 respectively.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
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**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

The Municipal Authority of the City of McKeesport provides post-employment medical benefits to eligible full-time non-bargaining employees and members covered under the Collective Bargaining Agreement between the Authority and the Utility Workers Union of America (AFL-CIO). Healthcare coverage that an employee has at the time of retirement will be paid at retirement, but no earlier than age 62. The healthcare coverage will cease at the employees age of 65. As of December 31, 2014 and 2013, two union retirees were receiving post-retirement health care benefits from the Authority. The Authority finances these benefits on a pay-as-you-go basis. Amounts paid for these benefits for the years ended December 31, 2014 and 2013 were deemed immaterial.

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, 'Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions'. This statement provides the accounting and reporting requirements for benefit plans, as well as, requires that public sector employers accrue the cost of any postretirement healthcare or similar benefits (OPEB) they may offer to employees. Under GASB Statement No. 45, retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan.

The Annual OPEB and Net Pension Obligation for the years ending December 31, 2014 and December 31, 2013, and certain other required supplementary information as of January 1, 2012 is as follows:

|                                            | <b><u>2014</u></b>       | <b><u>2013</u></b>       |
|--------------------------------------------|--------------------------|--------------------------|
| Normal Cost                                | \$ 195,464               | \$ 201,638               |
| Amortization of Unfunded Accrued Liability | -                        | -                        |
| Annual Required Contribution (ARC)         | <u>\$ 195,464</u>        | <u>\$ 201,638</u>        |
| Interest on Net OPEB Obligation            | -                        | -                        |
| Adjustments to ARC                         | -                        | -                        |
| Annual OPEB Cost                           | <u>\$ 195,464</u>        | <u>\$ 201,638</u>        |
| Contributions Made (Estimated)             | <u>(718)</u>             | <u>(843)</u>             |
| Estimated Increase in Net OPEB Obligation  | <u>\$ 194,746</u>        | <u>\$ 200,795</u>        |
| Net OPEB Obligation - January 1, 2014      | <u>407,849</u>           | <u>207,054</u>           |
| Net OPEB Obligation - December 31, 2014    | <u><u>\$ 602,595</u></u> | <u><u>\$ 407,849</u></u> |

**FUNDED STATUS AND FUNDING PROGRESS**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**FUNDED STATUS AND FUNDING PROGRESS (Continued)**

The schedule of funding progress, as shown below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| (A)                            | (B)                             | (B-A)<br>(UAAL)                   | (A/B)                                         | (C)             | (B-A)/C            |                                         |
|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------------------|-----------------|--------------------|-----------------------------------------|
| ACTUARIAL<br>VALUATION<br>DATE | ACTUARIAL<br>VALUE OF<br>ASSETS | ACTUARIAL<br>ACCRUED<br>LIABILITY | UNFUNDED<br>ACTUARIAL<br>ACCRUED<br>LIABILITY | FUNDED<br>RATIO | COVERED<br>PAYROLL | UAAL AS A<br>% OF<br>COVERED<br>PAYROLL |
| 1/1/12                         | \$ -                            | \$ 931,894                        | \$ 931,894                                    | 0%              | \$ 2,028,488       | 45.90%                                  |

**ACTUARIAL METHODS AND ASSUMPTIONS**

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

The January 1, 2012 actuarial valuation reports utilized the Entry Age Normal Cost Actuarial Cost Method. The UAAL is being amortized based on a level dollar, 20 year closed period resulting in an amortization factor of 9.6036. The Discount Rate used was 4.0%. Retiree contributions are assumed to increase at the same rate as the health care cost trend rate which is 9% for 2013, decreasing by 1% per year to 7% in 2015.

A detail description of the provisions of the post-employment benefit plan is available in the GASB 45 actuarial valuation report as of January 1, 2012. The Net OPEB liability of \$602,595 is reflected as part of Noncurrent Liabilities in the financial statement of net position (Exhibit A).

**NOTE 10 - RISK MANAGEMENT**

The 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. The risk of loss retained by the Authority is limited to deductibles under each of the policies which can range between \$2,500 and \$10,000 per item.

For its workers compensation insurance coverage, the Authority participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), which is a public entity risk pool comprised of approximately 200 governmental organizations. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals from the Pennsylvania Department of Labor and Industry. All Trust participants may be subject to a supplemental assessment/dividend based on overall experience of the participants.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 10 - RISK MANAGEMENT (Continued)**

Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers Compensation Act and Occupational Disease Act of each and every participant of the Trust. The Trust purchases excess insurance coverage within statutory limits. The retention for this coverage is \$750,000 per occurrence. Political subdivisions joining the Trust must remain members for a minimum of four years. Members may withdraw from the Trust after that time by giving ninety days notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdraw, the participant is responsible for their share of assessments but has no claim on any assets of the Trust.

**NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES**

**LEGAL MATTERS**

The Authority, on occasion, can be party to various legal actions arising from normal business operations, the aggregate effect of which, in management's opinion, would not be material to the financial position of the Authority as of December 31, 2014 and 2013.

**PENNSYLVANIA SEWAGE FACILITIES ACT (ACT 537)**

Act 537 requires municipalities in Pennsylvania to develop and implement official sewage plans that address existing sewage disposal needs, account for future land development and provide for future sewage disposal needs. During 2009 and 2010, the Authority worked with the PA Department of Environmental Protection to develop its Act 537 Sewage Facility Plan and Combined Sewer Overflow (CSO) Long Term Control Plan. In 2011 fifteen separate contracts were awarded for construction projects related to these Plans. These Plans require significant new treatment processes, pumping stations and interceptor lines with an associated capital cost of approximately \$54 million.

To finance the project, the Authority has chosen to issue a series of bonds (see Note 4) at a rate of one per year, thereby enabling the Authority to step the necessary sewage rate increases over the next four to five years as opposed to a significant rate increase in any one year. In 2011 Pennsylvania Infrastructure Investment Authority (PENNVEST) awarded the Authority a grant of \$17,239,375 and an additional amount of \$17,239,375 in the form of a 30 year loan at 1% interest. The award was issued only for Contract 2010-1 and 2010-2 which covers the general and electrical contracts for the wastewater treatment facility at 100 Atlantic Ave. in McKeesport, PA. All unused funds will be retained by PENNVEST. The other 13 contracts will be financed by the previously mentioned bond issues.

**U.S. ARMY CORPS OF ENGINEERS (COE)**

The U.S. Army Corps of Engineers (COE) is undergoing a project to raise the water level in the Monongahela River which will significantly impact the Authority's Combine Sewer Overflow (CSO) outfall structures. As a result, the federal government is funding the relocation of most of the CSO structures. Construction for Phase 1 of the project was completed in 2007. Phase II began in the second half of 2009 and was completed in the first half of 2011. The Evans Avenue Overflow Line is the only remaining line that needs to be raised, however, the COE do not have any funds allocated for this line at this time. The Authority now has new outfall structures that will greatly reduce the amount of river water that flows back through the pipes and into the sewer lines. This, in return, will reduce the costs associated with treating unnecessary water.

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**NOTE 12 – OBLIGATIONS IMPOSED UPON THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT BY CITY OF MCKEESPORT ORDINANCE NO. 12-20, ENACTED OCTOBER 3, 2012, WITH AN EFFECTIVE DATE OF OCTOBER 6, 2012**

Pursuant to City of McKeesport Ordinance No. 12-20, enacted into law by the City of McKeesport on October 3, 2012, with an effective date of October 6, 2012, The Municipal Authority of the City of McKeesport is required to pay the City of McKeesport an Intergovernmental Agreement Fee in lieu of the normal property and revenue assessments and to compensate the City of McKeesport for all services and increased costs the location and expansion of the Authority's treatment plant have caused at a rate of \$1,000,000 per year and with The Municipal Authority of the City of McKeesport to enter into and execute a Cooperation Agreement with the City of McKeesport according to the terms approved by the Solicitor and Mayor of the City of McKeesport and specifically incorporating such Intergovernmental Agreement Fee. Such Cooperation Agreement was thereafter prepared by the City of McKeesport; dated December 12, 2012; and entered into and executed by The Municipal Authority of the City of McKeesport. Such Cooperation Agreement requires The Municipal Authority of the City of McKeesport to pay on or before December 25<sup>th</sup> of each year a \$1,000,000 Intergovernmental Agreement Fee for the initial year and with such Authority payment to be increased by 1% for each year thereafter during the term of the Cooperation Agreement. In addition, the payment of this fee is specifically subordinated each year to the payment of all debt service obligations. Services include, but are not limited to: Drafting services for mapping system, Permits for sewer taps and relays, Engineering services, Procurement of right-of-ways and easements, Surveying services, Use of specialized equipment owned by City, Police, Fire, and Ambulance services, Electrical department services, and many other services rendered as stated in Agreement. The Authority paid the City of McKeesport an Intergovernmental Agreement Fee of \$1,020,100 and \$1,010,000 respectively for calendar years ended December 31, 2014 and 2013.

**NOTE 13 – PENDING GASB PRONOUNCEMENTS**

In June 2012, GASB issued Statement No. 68, 'Accounting and Financial Reporting for Pensions', which amends GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

In November of 2013, GASB issued Statement No. 71, 'Pension Transition for Contributions Made Subsequent to Measurement Date – an Amendment to GASB 68'. The primary objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68.

The provisions of this Statement are effective for the Authority's December 31, 2015 financial statements. The effects of the implementation of GASB Statements Nos. 68 and 71 on the Municipal Authority of the City of McKeesport's financial statements have not yet been determined.

**NOTE 14 – SUBSEQUENT EVENTS**

Management has determined that there are no events subsequent to December 31, 2014 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.

***SUPPLEMENTARY  
INFORMATION***

**THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**  
**STATEMENT OF DETAIL OPERATING EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31,**

|                                                | <b>2014</b>         | <b>2013</b>         |
|------------------------------------------------|---------------------|---------------------|
| <b><u>PERSONNEL COSTS</u></b>                  |                     |                     |
| Plant Salaries                                 | \$ 1,898,677        | \$ 2,291,821        |
| Administrative Salaries                        | 692,021             | 331,625             |
| Payroll Taxes                                  | 198,702             | 199,933             |
| Pension                                        | 352,176             | 341,096             |
| Employee Benefits                              | 882,403             | 897,414             |
| <b>TOTAL PERSONNEL</b>                         | <b>\$ 4,023,979</b> | <b>\$ 4,061,889</b> |
| <b><u>PROFESSIONAL SERVICES</u></b>            |                     |                     |
| Engineering (Net of COE Reimbursements)        | \$ 25,510           | \$ 57,417           |
| Audit                                          | 6,500               | 8,200               |
| Legal                                          | 144,051             | 185,946             |
| Accounting                                     | 4,800               | 4,800               |
| Pension Services                               | 31,370              | 37,529              |
| Payroll Services                               | 7,230               | 7,016               |
| Miscellaneous Professional Services            | 36,031              | 7,650               |
| <b>TOTAL PROFESSIONAL SERVICES</b>             | <b>\$ 255,492</b>   | <b>\$ 308,558</b>   |
| <b><u>SEWAGE PLANT COSTS</u></b>               |                     |                     |
| Utilities                                      | \$ 542,529          | \$ 423,732          |
| Repair and Maintenance                         | 226,992             | 334,066             |
| Lease Rental Expense                           | 312,491             | 312,166             |
| Chemicals                                      | 67,601              | 66,369              |
| Lab Supplies and Analysis                      | 48,900              | 47,522              |
| Safety Program                                 | 11,598              | 19,238              |
| Vehicle Expense                                | 87,769              | 95,170              |
| Sludge Hauling                                 | 250,830             | 264,866             |
| Computers                                      | 45,401              | 26,019              |
| Uniforms                                       | 9,767               | 10,569              |
| CSO Study                                      | 73,480              | 114,572             |
| Duquesne/Dravosburg Expenses                   | -                   | 113,649             |
| Miscellaneous                                  | 9,909               | 33,525              |
| <b>TOTAL SEWAGE PLANT COSTS</b>                | <b>\$ 1,687,267</b> | <b>\$ 1,861,463</b> |
| <b><u>OTHER GENERAL AND ADMINISTRATIVE</u></b> |                     |                     |
| Insurance                                      | \$ 115,143          | \$ 121,918          |
| Office Supplies                                | 3,396               | 4,245               |
| Telephone                                      | 33,722              | 64,148              |
| Billing and Collecting                         | 117,813             | 76,745              |
| Travel and Education                           | 14,061              | 21,059              |
| Advertising                                    | 184                 | 2,773               |
| Bond and Asset Management Fees                 | 39,341              | 45,700              |
| Permits/Dues/Fees                              | 16,430              | 14,875              |
| Miscellaneous                                  | 35,356              | 47,416              |
| <b>TOTAL OTHER GENERAL AND ADMINISTRATIVE</b>  | <b>\$ 375,446</b>   | <b>\$ 398,879</b>   |
| <b><u>BAD DEBT EXPENSE</u></b>                 | <b>\$ 287,214</b>   | <b>\$ -</b>         |
| <b><u>DEPRECIATION</u></b>                     | <b>\$ 1,323,547</b> | <b>\$ 1,317,124</b> |
| <b>TOTAL OPERATING EXPENSES</b>                | <b>\$ 7,952,945</b> | <b>\$ 7,947,913</b> |

The accompanying notes are an integral part of these financial statements



**The City of McKeesport, Pennsylvania  
And  
The Municipal Authority of the City McKeesport**

**Appraisal Work Papers  
As of September 2016**

**Income Approach  
Financials 2015**

**AUS Consultants  
Suite 201  
8555 West Forest Home Avenue  
Greenfield, Wisconsin 53228  
Office Telephone: 414-529-5755  
J. Weinert's Cell: 414-698-8371  
J. Weinert's E-Mail: [weinertj@auswest.net](mailto:weinertj@auswest.net)**

**Operating Data 2015**

**2015 LARGEST CUSTOMERS**

| <u>Customer</u>                                          | <u>Consumption</u> | <u>2015 Annual Revenues</u> | <u>% of Total 2015 Revenues</u> |
|----------------------------------------------------------|--------------------|-----------------------------|---------------------------------|
| UPMC Health System #11                                   | 18,245             | \$226,257.50                | 2.84%                           |
| McKeesport Housing Auth (1-14 Harrison Village)          | 8,317              | \$106,877.90                | 1.34%                           |
| Dravosburg Housing Auth (250 Scott Dr)                   | 10,230             | \$102,802.05                | 1.29%                           |
| McKeesport Housing Auth (23-41 Crawford Village)         | 7,699              | \$95,498.50                 | 1.20%                           |
| McKeesport Housing Auth (17 Harrison Village)            | 3,978              | \$49,463.80                 | 0.62%                           |
| McKeesport Housing Auth (6 <sup>th</sup> st and Huey st) | 3,454              | \$44,795.20                 | 0.56%                           |
| Midtown Plaza Apartments                                 | 3,273              | \$42,529.00                 | 0.53%                           |
| Kane Regional Nursing Home                               | 3,216              | \$40,029.00                 | 0.50%                           |
| Serra High School                                        | 2,406              | \$32,134.20                 | 0.40%                           |
| Senior Care Plaza                                        | 2,568              | \$32,000.80                 | 0.40%                           |
| <b>TOTAL</b>                                             | <b>63,386</b>      | <b>\$772,387.95</b>         | <b>9.68%</b>                    |

Source: Authority Officials

**SEWER SYSTEM RATES**

**Sewage Service Rates – McKeesport Sewage Processing Rate  
Charge/1,000 gal Consumed**

|      |         |
|------|---------|
| 2007 | \$3.16  |
| 2008 | \$3.70  |
| 2009 | \$4.44  |
| 2010 | \$5.30  |
| 2011 | \$6.10  |
| 2012 | \$6.10  |
| 2013 | \$7.85* |
| 2014 | \$7.95  |
| 2015 | \$8.05  |
| 2016 | \$8.15  |

\* Rate Increase started 7/1/13, all other rate increases started January 1

**Sewage Service Rates per Month – McKeesport**

| <u>Year</u> | <u>Charge for 0-2000gal Consumed</u> | <u>Charge for each additional 1,000gal</u> |
|-------------|--------------------------------------|--------------------------------------------|
| 2011        | \$25.00                              | \$10.55                                    |
| 2012        | \$25.00                              | \$10.55                                    |
| 2013*       | \$25.00                              | \$12.30*                                   |
| 2014        | \$30.00                              | \$12.30                                    |
| 2015        | \$30.00                              | \$12.40                                    |
| 2016        | \$30.20                              | \$12.50                                    |

\* Rate Increase started 7/1/13, all other rate increases started January 1

### **Sewage Service Rates per Month – Duquesne**

| <u>Year</u> | <u>Charge per 1000 gal</u> |
|-------------|----------------------------|
| 2011        | \$5.75                     |
| 2012        | \$5.75                     |
| 2013        | \$5.75                     |

| <u>Year</u> | <u>Charge for 0-2000gal Consumed</u> | <u>Charge for each additional 1,000gal</u> |
|-------------|--------------------------------------|--------------------------------------------|
| 2014*       | \$25.00                              | \$7.95                                     |
| 2015        | \$25.00                              | \$10.10                                    |
| 2016        | \$25.20                              | \$12.50                                    |

\* Effective 1/1/14

### **Sewage Service Rates per Month – Dravosburg**

| <u>Year</u> | <u>Charge for 0-2000gal Consumed</u> | <u>Charge for each additional 1,000gal</u> |
|-------------|--------------------------------------|--------------------------------------------|
| 2011        | \$18.00                              | \$8.00                                     |
| 2012        | \$18.00                              | \$8.00                                     |
| 2013*       | \$18.00                              | \$9.75                                     |
| 2014        | \$25.00                              | \$9.75                                     |
| 2015        | \$25.00                              | \$10.10                                    |
| 2016        | \$25.20                              | \$12.50                                    |

\* Rate Increase started 7/1/13, all other rate increases started January 1

### **Trends in Customer Breakdown – Sewer System per Year**

#### Historical Number of Customers

2001 19,987\*  
2002 19,987\*  
2003 19,987\*  
2004 19,142\*  
2005 19,070\*  
2006 19,180\*  
2007 19,225\*  
2008 19,225\*  
2009 19,225\*  
2010 18,985~  
2011 18,985~  
2012 21,556~  
2013 22,007~  
2014 21,576~  
2015 20,320~  
2016 20,320~

\* Number provided by the communities in their annual waste load management report

~Number provided by Service Community billing departments

Source: Authority Officials

**THE MUNICIPAL AUTHORITY OF  
THE CITY OF MCKEESPORT**

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FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

**THE MUNICIPAL AUTHORITY OF
THE CITY OF MCKEESPORT**
MCKEESPORT, PENNSYLVANIA

FINANCIAL STATEMENTS

WITH REPORT BY

CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
MCKEESPORT, PENNSYLVANIA

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Mark C. Turnley

Certified Public Accountant

1000 3rd Avenue
New Brighton, Pennsylvania 15066
(724) 384-1081
FAX (724) 384-8908

**To the Board of Directors
Municipal Authority of the City of McKeesport**

Independent Auditor's Report

Report on Financial Statements

I have audited the accompanying financial statements of the Municipal Authority of the City of McKeesport as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Municipal Authority of the City of McKeesport'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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Municipal Authority of the City of McKeesport as of December 31, 2015 and 2014, 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

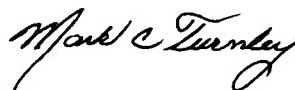
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iii-xvi and the defined benefit pension plan information on pages 29-32 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 Municipal Authority of the City of McKeesport's basic financial statements. The supplementary information (statement of detail operating expenses) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information (statement of detail operating expenses) 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 (statement of detail operating expenses) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Mark C. Turnley, CPA

June 29, 2016
New Brighton, Pennsylvania

**THE MUNICIPAL AUTHORITY OF
THE CITY OF McKEESPORT**
Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

This section of the Authority's annual financial report represents our discussion and analysis of the Authority's financial performance during the years ended December 31, 2015 and 2014. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. We encourage readers to consider the information presented here in conjunction with the information provided in the Authority's financial statements.

OPERATING AGREEMENTS

The Authority owns and operates three wastewater treatment facilities pursuant to Agreements with each of the twelve communities it serves. The Authority has Agreements to provide wastewater treatment services with the City of McKeesport, the City of Duquesne, the Borough of Liberty, the Borough of Port Vue, the Borough of East McKeesport, the Township of Elizabeth, the Borough of Glassport, the Borough of White Oak, the Borough of Versailles, the Borough of Lincoln, the Borough of Dravosburg, and the Township of North Versailles. The Authority's Board of Directors establishes rates which are designed to recover the cost of providing services. The rates are based upon the gallons of water used by the communities. The Authority bills the municipalities on a quarterly basis for services provided to the communities' residents at the established rate. The municipalities are responsible for setting a rate for customers within their municipalities and for billing and collecting from those customers. The Authority began conducting billing services for Versailles Borough in March of 2009 in addition to the systems that it owns; McKeesport, Duquesne & Dravosburg.

The City of McKeesport sold its Collection System to the Authority effective January 1, 2009 under a lease purchase agreement. The acquisition of the sewer system included more than 550,000 feet of sewer lines ranging in size from 6" to 42" and two pumping stations. Since that date Authority personnel have performed routine maintenance and repairs to the system. On November 8, 2010 the City of Duquesne sold its wastewater treatment plant and collection system to the Authority for \$3.8 million. The acquisition added an additional 163,700 feet of sewer lines and 557 manholes to the Authority's care. A combined sewer overflow (CSO) long term control plan has been developed and is waiting on DEP approval. In January of 2011 the Authority purchased the Dravosburg Wastewater Treatment Facility along with its corresponding collection system from the Borough of Dravosburg for \$330,000. The acquisition added an additional 47,500 feet of sewer lines and one pump station. The CSO Long Term Control Plan has been developed, the initial phase was recently approved by the DEP and is now awaiting the final approval.

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OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include only those of the Authority which is a component unit of the City of McKeesport, Pennsylvania. The financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. They are designed to provide a broad overview of the Authority's finances, in a manner similar to a private-sector business. All of the Authority's activities are reported in the statements except for activities associated with the pension fund because those funds are not available to support the Authority's own programs.

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference of the two reported as Net Position. Net Position is reported as one of three categories: net investment in capital assets; restricted; or unrestricted.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's Net Position changed during the year. All of the changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected rates and earned but unused vacation leave).

These two financial statements report the Authority's Net Position and the changes in the Net Position. Net Position, which represents the difference between assets and liabilities, are one measure of the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's Net Position may serve as a useful indicator of whether its financial position is improving or deteriorating.

Notes to the financial statements provide additional information that is essential to a full understanding of the information provided in these financial statements. The financial statements and accompanying notes can be found in the financial section of this report.

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FINANCIAL HIGHLIGHTS

In 2014 the Authority had a minimal increase of ten cents to their sewage processing rate to \$7.95/1,000 gallons to cover increased operating costs, inflation, etc. Then again in 2015, the Authority had another minimal increase of ten cents, which brings the sewage processing rate to \$8.05/1,000gallons. No major rate increases are expected in the near future, as the Authority had implemented such rate increases over the past few years to compensate for the recent construction projects.

Bids for the Act 537 Plan Expansion Project were opened on March 7, 2011 and fifteen (15) contracts were awarded on May 26, 2011.

The Authority was awarded PennVest funding on April 20, 2011. The funding consisted of \$17,239,375 in the form of a grant and an equal amount in the form of a one (1.0) percent thirty (30) year loan. These funds are to apply only to the two contracts pertaining to the construction relating to the upgrade of the wastewater treatment facility itself. It cannot be used for the upgrades to the pump stations or lines. The cost of these other contracts not covered by Pennvest funds will be funded by the bond revenues. The project is 99% complete and is just awaiting project close out and final payments.

The Tapping Fee (Capacity fee) remained unchanged in 2015 at a rate of \$1,750 per Equivalent Dwelling Unit ("EDU"). An EDU, equivalent dwelling unit, is the average amount of wastewater that each household in the service area discharges each day. The Authority calculates an EDU to be 236 gallons per day. During 2014, there were forty six (46) new commercial taps purchased within the Authority's service area, and during 2015 there were eight (8) new commercial taps purchased within the Authority's service area, this varies from year to year. The balance of cash accumulated from tapping fees (The Tapping Fee Account), at December 31, 2014 was \$430,758 and at December 31, 2015 was \$43,482. The reason for the significant decrease in cash balance from 2014 to 2015 was to fund general operating costs throughout the year as provided by terms in the trust indenture.

On December 31, 2015, total assets and deferred outflow of resources were \$87,028,427 and total liabilities were \$95,110,514 yielding a net position of -\$8,082,087. General operations resulted in an increase in total Net Position of \$665,680 for calendar year 2015 before the effects of prior period adjustments as discussed in Note 13 to the financial statements.

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FINANCIAL HIGHLIGHTS (Continued)

For the year 2015, 4.693 billion gallons of wastewater were treated at the Authority's three (3) wastewater treatment facilities. Approximately 1.124 billion gallons of water were consumed in 2015 by the Authority's customers and paid for by their user fees. By comparison, 24% of the wastewater treated was billable down from 28.5% in 2014. The remaining 3.569 billion gallons of wastewater, up from 2.916 billion gallons from 2014, entered the system from rainwater, groundwater, streams and rivers, water line breaks, firefighting efforts, etc. The 2015 annual rainfall increased from the previous year; 36.78 inches in 2014 to 41.14 inches in 2015.

Total Operating Revenues were \$13,047,844, a decrease of \$266,185, or 2% over 2014.

Operating Expenses were \$9,236,165, an increase of \$1,283,221 over 2014. The most significant increase was depreciation expense increasing by \$1,045,390 (from \$1,323,547 in 2014 to \$2,368,937 in 2015). Other significant increases included personnel costs, professional services, and sewage plant costs.

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FINANCIAL ANALYSIS

The following condensed financial statements and other selected information serve as financial data and indicators to help the Authority manage, monitor, and plan.

Condensed Statement of Net Position

	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>INCREASE <DECREASE></u>
Current & Restricted Assets	\$ 7,627,927	\$ 9,835,010	\$ (2,207,083)
Capital Assets - net of depreciation	73,813,794	93,963,753	(20,149,959)
Other Assets	3,878,601	2,758,051	1,120,550
Deferred Outflow of Resources	1,708,105	1,512,821	195,284
TOTAL ASSETS & DEFERRED OUTFLOW OF RESOURCES	\$ 87,028,427	\$ 108,069,635	\$ (21,041,208)
Current Liabilities	\$ 3,559,724	\$ 3,517,779	\$ 41,945
Long-term Liabilities	91,437,745	89,108,922	2,328,823
Deferred Inflow of Resources	113,045	-	113,045
TOTAL LIABILITIES & DEFERRED INFLOW OF RESOURCES	\$ 95,110,514	\$ 92,626,701	\$ 2,483,813
Net Investment in Capital Assets	\$ (14,730,364)	\$ 6,819,924	\$ (21,550,288)
Restricted for Debt Service	5,576,557	5,569,004	7,553
Unrestricted	1,071,720	3,054,006	(1,982,286)
TOTAL NET POSITION	\$ (8,082,087)	\$ 15,442,934	\$ (23,525,021)

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>INCREASE <DECREASE></u>
Operating Revenues	\$ 13,047,844	\$ 13,314,029	\$ (266,185)
Operating Expenses	9,236,165	7,952,944	1,283,221
NET OPERATING INCOME	\$ 3,811,679	\$ 5,361,085	\$ (1,549,406)
Non-Operating Revenues	\$ 1,234,040	\$ 255,237	\$ 978,803
Non-Operating Expenses	(4,380,039)	(4,813,057)	433,018
NET NON-OPERATING	\$ (3,145,999)	\$ (4,557,820)	\$ 1,411,821
CHANGE IN NET POSITION	\$ 665,680	\$ 803,265	\$ (137,585)

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FINANCIAL ANALYSIS (Continued)

Overall, the Authority's financial condition remained strong in 2015. Most of the ten service communities are up to date with their payments with the exception that they lag one quarter behind due to the length of time it takes to get their consumption numbers from the water authority. The addition of the McKeesport Collection System in 2009, the Duquesne Wastewater Treatment Plant and System in 2010, and the Borough of Dravosburg Wastewater Treatment Plant and System in 2011, as well as, the expressed interest of at least three of the Authority's service communities to sell their systems to the Authority, one of which has been in negotiations to sell, has greatly expanded the scope of the Authority's influence and responsibilities and bodes well for the future success of the Authority. Grant proceeds of \$211,828 were received in 2014 and \$753,293 received in 2015 from PENNVEST for the wastewater treatment facility project. The Authority also received \$468,438 in grant proceeds from FEMA/PEMA for damages incurred to the sewage systems in 2013.

The following table shows the Authority's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues. The effect of the addition of the 'Intergovernmental Agreement Fee' starting in 2012 is reflected in the decrease in operating cash as a percentage of operating revenues.

	2015	2014	Variance
Total operating revenues	\$13,047,844	\$ 13,314,029	-\$266,185
Net cash provided by operations	\$6,145,215	\$6,718,419	-573,204
Operating cash as a percentage of operating revenues	47.1%	50.5%	-3.4%

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CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

On December 31, 2015, the Authority had \$73,813,794 invested in capital assets, including land, infrastructure, buildings, plant and office machinery and equipment, and vehicles net of depreciation. This amount represents a net decrease (including additions, deletions and depreciation) of \$20,149,959, or approximately 21.4% from last year.

The Authority had approximately \$1,514,377 in capital additions during the 2015 year, mainly comprised of costs incurred for the Act 537 system improvements and upgrades including WWTP expansion, pump station construction, sanitary sewer construction and force main construction.

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

	2015	2014	INCREASE <DECREASE>
Land	\$ 61,132	\$ 61,132	\$ -
Infrastructure	33,487,620	33,502,793	(15,173)
Buildings	33,723,580	10,165,226	23,558,354
Plant Machinery & Equipment	22,627,410	7,955,983	14,671,427
Office Machinery & Equipment	126,615	143,791	(17,176)
Vehicles and Equipment	1,409,440	1,354,294	55,146
	<u>\$ 91,435,797</u>	<u>\$ 53,183,219</u>	<u>\$ 38,252,578</u>
Accumulated Depreciation	(17,622,003)	(17,485,167)	(136,836)
	<u>\$ 73,813,794</u>	<u>\$ 35,698,052</u>	<u>\$ 38,115,742</u>
Construction in Progress	-	58,265,701	(58,265,701)
	<u>\$ 73,813,794</u>	<u>\$ 93,963,753</u>	<u>\$ (20,149,959)</u>

In calendar year 2015, the Authority contracted for and completed an updated appraisal of the acquisition cost of all of its plant assets as a result of significant plant expansion and renovation over the past 7 years. As a result of this updated appraisal, asset categories as shown on the statement of net position, in some instances, changed significantly from calendar year 2014 to calendar year 2015 as a result of capitalizing prior year construction in progress. This updated appraisal determined that certain prior year assets (structures and equipment) had been completely renovated or replaced and accordingly had to be removed from the Authority's cost value for its property, plant and equipment.

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CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

CAPITAL ASSETS (Continued)

The corresponding reduction is reflected as part of the Authority's prior period adjustments as stated on the statement of revenues, expenses and changes in net position. Depreciation expense increased significantly in calendar year 2015 as a result of the additional capitalization on assets formerly shown as construction in progress.

DEBT ADMINISTRATION

As of December 31, 2015, the Authority had total long-term debt outstanding of \$62,578,823. The Authority's debt obligations are comprised of 1) seven sewer revenue bonds, 2) one sewer revenue note, 3) three PENNVEST notes, 4) one note agreement with First Commonwealth Bank, and 5) three capital lease obligations with PNC Equipment Finance.

In December of 2009, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2009 in the amount of \$10,000,000 for the purpose of 1) the design and construction of capital projects, 2) acquisition of facilities required for proper operation and maintenance of the Authority wastewater conveyance and treatment system, 3) funding a debt service reserve fund, and 4) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 3.0 and 5.75%. The bonds are scheduled to mature December 15, 2039. The remaining principal balance on the bond issue as of December 31, 2015 is \$9,490,000.

In December of 2010, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2010 under the terms of a Trust Indenture dated December 28, 2010, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$25,000,000. The purpose of the bond issue was for 1) the design and construction of capital projects, 2) funding a debt service reserve fund, and 3) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds - Series of 2013 were issued for the purpose of advance refunding a portion (\$11,215,000) of Sewer Revenue Bonds - Series of 2010, leaving a balance at December 31, 2015 of \$13,760,000. Interest rates range between 2.5 and 5.0% and the bonds are scheduled to mature on December 15, 2041.

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CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

DEBT ADMINISTRATION: (Continued)

In August of 2011, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2011 under the terms of a Trust Indenture dated August 31, 2011, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$26,180,000. The purpose of the bond issue was for 1) prepaying certain outstanding loans (capital leases) between the City of McKeesport and the Authority, 2) funding a debt service reserve fund, and 3) pay the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15. In January of 2013, Sewer Revenue Bonds – Series of 2013 were issued for the purpose of advance refunding a portion (\$500,000) of Sewer Revenue Bonds – Series of 2011, leaving a balance at December 31, 2015 of \$21,585,000. Interest rates range between 2.0 and 4.25% and the bonds are scheduled to mature on December 15, 2030.

In January of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series of 2012 under the terms of a Trust Indenture dated January 5, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$5,990,000. The purpose of the bond issue was for 1) currently refunding the Authority's outstanding Sewer Revenue Bonds – Series of 2006, and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.00%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2036. The remaining principal balance on the bond issue as of December 31, 2015 is \$5,365,000.

In July of 2012, the Authority issued Tax-Exempt Sewer Revenue Bonds - Series B of 2012 under the terms of a Trust Indenture dated August 23, 2012, by and between the Authority and The Bank of New York Mellon Trust Company, as Trustee, in the amount of \$4,650,000. The purpose of the bond issue was for 1) advance refunding a portion of the Authority's outstanding Sewer Revenue Bonds – Series of 2008 and 2) paying the costs of issuance on the bonds. The bonds were issued in denominations of \$5,000 with interest payable semi-annually June 15 and December 15 at rates ranging between 1.00 and 3.45%. The bonds provide for early redemption options as detailed in the official statement of issue. The bonds are scheduled to mature December 15, 2033. The remaining principal balance on the bond issue as of December 31, 2015 is \$4,635,000.