

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of Butler Area Sewer Authority (“BASA”)
66 Pa. C.S. § 1329**

**Application Filing Checklist – Water/Wastewater
Docket No. A-2022-3037047**

19. Cost of Service.
- a. Provide a copy of the seller’s two most recent audited financial statements.

RESPONSE:

- a. See attached the seller’s two most recent audited financial statements (fiscal years ended July 31, 2021 and July 31, 2022). Both financial statements are attached as **Appendix A-19-a**.

Butler Area Sewer Authority

Financial Statements and
Required Supplementary and
Supplementary Information

Years Ended July 31, 2021 and 2020
with Independent Auditor's Report

MaherDuessel

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BUTLER AREA SEWER AUTHORITY

YEARS ENDED JULY 31, 2021 AND 2020

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Independent Auditor's Report

**Butler Area Sewer
Authority Board
Butler Area Sewer
Authority**

We have audited the accompanying financial statements of the Butler Area Sewer Authority (Authority), as of and for the years ended July 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of July 31, 2021 and 2020, and changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements

themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Mahe Duessel

Pittsburgh, Pennsylvania
November 1, 2021

BUTLER AREA SEWER AUTHORITY**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the financial report presents the Management's Discussion and Analysis (MD&A) of the Butler Area Sewer Authority's (Authority) financial condition and performance for the fiscal year ending July 31, 2021 in compliance with Statement No. 34 of the Governmental Accounting Standards Board (GASB). This analysis is intended to be read and used in conjunction with the included Financial Statements

FINANCIAL HIGHLIGHTS

The following are key financial highlights during the fiscal year ended July 31, 2021:

- During the year, the Authority was contacted by two private sector wastewater providers for consideration of the sale of all Authority assets and therefore ultimately the dissolution of the wastewater Authority. No agreement has been entered, but the ultimate outcome of this inquiry is unknown as of the date of this report.
- Rates were not increased for sanitary sewer services during the year ended July 31, 2021. In addition, no proposed rate increases are to take effect relative to the adopted 2021-2022 fiscal budget. The most recent rate increase of \$2.00, or 5.6%, per month per equivalent dwelling unit (EDU), went into effect on January 1, 2020. This resulted in the base quarterly rate for a single EDU to increase from \$108 to \$114.
- The Authority issued Sewer Revenue Bonds in October of 2020 (2020A Bonds) to be used for the primary purpose of refunding the 2015 Sewer Revenue Bonds, as well as to pay for related costs and expenses of issuing the 2020A Bonds. This issuance resulted in a savings of \$584,741 to be realized over the 11-year life of the 2020A Bonds.
- The Authority issued Sewer Revenue Bonds in April of 2021 (2021 Bonds) to be used for the primary purpose of refunding the 2016 Sewer Revenue Bonds, as well as to pay for related costs and expenses of issuing the 2021 Bonds. This issuance resulted in a savings of \$950,547 to be realized over the 21-year life of the 2021 Bonds.
- The Authority proposed a Corrective Action Plan (CAP) which was approved by the Pennsylvania Department of Environmental Protection (DEP) on March 26, 2019. The CAP addresses wet weather hydraulic overloading of two pump station systems, the *Fisher Heights, Brewster, and Brewster Booster Pump Station System (FBB)* as well as the *Greenwood, Benbrook, and Bryson Pump Station System (GBB)* within the service area. The CAP outlines steps necessary for the Authority to collect and analyze data as well as propose, design, and construct any necessary improvements within the designated area of the sewer collection system in accordance with the proposed timeline. As of July 31, 2021, the Authority has entered into the design phase for these project areas and continues to be on or ahead of the proposed CAP schedule. Once final cost estimates are established, a new bond issue will be sought to cover the CAP expenditures which are preliminarily estimated to be \$12,000,000.

- The Authority experienced a Net Loss or a decrease in Net Position of \$265,172 (.01%) in the fiscal year ended July 31, 2021. The loss continues to be driven by high depreciation expenses totaling \$3,685,849 for the fiscal year ended July 31, 2021.
- The Authority continued to operate through the pandemic, caused by the novel strain of the coronavirus, by implementing guidelines offered by federal, state, and local agencies. Adverse impact to the Authority has been negated to a large degree as sanitary sewer service is an essential need and because many Authority customers are residential properties that are charged on a flat rate basis. This stabilized the Authority's revenues for the period. Collection efforts, including water shut offs, have also resumed during the year.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Authority are compiled using the Enterprise Fund method of accounting because the operations are financed and operated in a manner similar to private sector businesses, where the costs of providing services to the general public on a continuing basis are intended to be financed or recovered through user charges or sewer service fees. The Authority uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when the liability is incurred. The financial statements offer short-term and long-term financial information about the Authority's activities.

The Statement of Net Position summarizes the Authority's assets, liabilities, and deferred outflows and inflows of resources and provides information about the nature and amounts of investments in resources or assets and the offsetting obligations or liabilities to Authority creditors. The overall financial condition of the Authority is reflected in this statement.

The Statement of Revenues, Expenses, and Changes in Net Position summarizes the revenues and expenses. This statement measures the success of the Authority's operations over the past fiscal year and can be used to determine whether the Authority has successfully recovered all its costs through its sewage disposal rates and other fees.

The third required financial statement is the Statement of Cash Flows. This statement provides information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash flows from operating activities, capital, and related financing activities, and investing activities, as well as net changes in cash during the reporting period.

The Notes to Financial Statements (Notes) provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information on the Authority's accounting policies, the basis of accounting, deposits and investments, capital assets, outstanding debt, pensions, other postemployment benefits (OPEBs) and other significant activities, such as material risks, obligations, commitments, contingencies, subsequent events, and future requirements, as applicable to the Authority.

FINANCIAL ANALYSIS

The following comparative condensed financial statements provide a comparison of key financial data and indicators for management for monitoring and planning purposes.

Table 1 presents a condensed summary of the Authority's Statements of Net Position:

Table 1
Condensed Statements of Net Position

	Balance at July 31, 2021	Balance at July 31, 2020	Net Change
Assets:			
Current Assets	\$ 20,257,198	\$ 19,414,574	\$ 842,624
Capital Assets	60,440,332	63,170,727	(2,730,395)
Total Assets	<u>80,697,530</u>	<u>82,585,301</u>	<u>(1,887,771)</u>
Deferred Outflows of Resources:			
Deferred charge on refunding	954,774	1,047,903	(93,129)
Total Deferred Outflows of Resources	<u>954,774</u>	<u>1,047,903</u>	<u>(93,129)</u>
Liabilities and Net Position:			
Current Liabilities	3,530,349	3,434,135	96,214
Non-Current Liabilities	44,963,093	46,672,218	(1,709,125)
Total Liabilities	<u>48,493,442</u>	<u>50,106,353</u>	<u>(1,612,911)</u>
Deferred Outflows of Resources:			
Deferred inflows of resources for OPEB	411,269	514,086	(102,817)
Total Deferred Inflows of Resources	<u>411,269</u>	<u>514,086</u>	<u>(102,817)</u>
Total Net Position	<u>\$ 32,747,593</u>	<u>\$ 33,012,765</u>	<u>\$ (265,172)</u>

Assets and Deferred Outflows of Resources

The Authority's Current Assets increased by \$842,624 (4.3%) during the period. There were net increases to cash and cash equivalents (\$2,522,140), investments in trusteed accounts (\$935,324), and accounts receivable (\$45,860) as well as a decrease to investments in other (\$2,699,000). Due to the dwindling rates of return on certificates of deposit, investment in other funds that matured were not reinvested and were held instead as cash and cash equivalents as of the year ended July 31, 2021. The remaining proceeds (\$346,835) from the 2016 Bond issue, held in the construction fund, were utilized during the year. However, in accordance with the Authority's trust indenture, amounts representing annual excess funds (\$1,279,184) were transferred from the revenue fund into the bond redemption and improvement fund resulting in an increase in overall trusteed account assets. Finally, due to the coronavirus, its economic impact, and restrictions placed on collection efforts, the accounts receivable balance increased slightly from the prior year.

Capital Assets decreased by \$2,730,395 (4.3%). Although the Authority had additions to capital assets during the year, the amount of depreciation for the period of \$3,685,849 far exceeded the capital asset additions and therefore resulted in a decrease in Capital Assets for the period. Additional information can be reviewed in the Capital Improvements section of the MD&A and in the Notes to the Financial Statements.

Overall, total assets decreased by \$1,887,771 (2.3%).

The Deferred Charge on Refunding was established from the 2013 and 2015 Sewer Revenue Bonds, that were issued to advance refund a portion of the 2010 Bond issue. The deferred charge is amortized over the shorter of the life of the new or original bonds. Additional information can be reviewed in the Debt section of the MD&A, as well as in the Notes to Financial Statements.

Liabilities, Deferred Inflows of Resources, and Net Position

The Authority had an increase in Current Liabilities as of July 31, 2021 of \$96,214 (2.8%). This was due primarily to an increase in vouchers payable (\$105,332). Vouchers payable fluctuates from year to year based on the timing of purchases, the need for materials/supplies, and due to the pricing and quantity of construction projects underway at year end. Additional information on capital projects can be seen in the Capital Improvements section of the MD&A below. The decrease (\$45,000) in current maturities of bonds payable is based on the amortization schedules of each respective bond issue, such payments of principal debt service naturally fluctuate from year to year. In addition, the Authority refinanced the 2015 Bonds and 2016 Bonds with the 2020A Bonds and 2021 Bonds, respectively during the year ended July 31, 2021, resulting in an annual debt service savings. Additional information on debt is available in the Debt section of the MD&A and in the Notes to the Financial Statements.

Non-Current Liabilities had a net decrease of \$1,709,125 (3.7%). The Authority continued to make required debt service payments on both bonds and notes over the period. The Authority issued two Sewer Revenue Bonds in October 2020 and April 2021 to be used for the primary purpose of refunding the two Sewer Revenue Bonds, Series 2015 and Series 2016; changes to the debt service amortization of these four bonds is reflected in the variance shown. More discussion can be reviewed in the Debt section of the MD&A or the Notes to Financial Statements. In addition, the OPEB liability increased by \$94,544 from the prior period. More discussion can be reviewed in the Postemployment Benefits Other Than Pension Benefits (OPEBs) section of the Notes to Financial Statements.

Overall, Total Liabilities decreased by \$1,612,911 (3.2%).

Table 2 presents a condensed summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position:

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

	Year Ended July 31, 2021	Year Ended July 31, 2020	Net Change
Revenues:			
Sewer Charges	\$ 10,692,751	\$ 10,373,400	\$ 319,351
Other Operating Fees and Charges	144,273	203,150	(58,877)
Non-Operating Revenues	270,331	281,238	(10,907)
Total Revenues	<u>11,107,355</u>	<u>10,857,788</u>	<u>249,567</u>
Expenses:			
Operating Expenses, Net of Depreciation	6,140,125	6,478,400	(338,275)
Depreciation	3,685,849	3,695,178	(9,329)
Non-Operating Expenses	1,678,324	1,500,228	178,096
Total Expenses	<u>11,504,298</u>	<u>11,673,806</u>	<u>(169,508)</u>
Capital Contributions:			
Tap-In Fees	131,771	86,346	45,425
Total Capital Contributions	<u>131,771</u>	<u>86,346</u>	<u>45,425</u>
Net Income (Loss)	(265,172)	(729,672)	464,500
Net Position:			
Beginning of Year	33,012,765	33,742,437	(729,672)
End of Year	<u>\$ 32,747,593</u>	<u>\$ 33,012,765</u>	<u>\$ (265,172)</u>

Revenues

Total Revenues increased from the prior year amount by \$249,567 (2.3%). Sewer charges increased during the period by \$319,351 (3.1%). Revenues increased for two primary reasons during the current year. First, a rate increase of \$2.00 per month per EDU became effective as of January 1, 2020, or approximately midway through the July 31, 2020 fiscal year, and because the increased rate was effective for the entire July 31, 2021 fiscal year, additional sewer charge revenue is reasonable. Second, due to the stay-at-home order and other coronavirus pandemic precautionary efforts in the year ended July 31, 2020, revenues were not as high as originally anticipated.

Other operating fees and charges decreased by \$58,877 (29.0%). During the year ended July 31, 2020, the Authority placed several surplus assets for sale through an opened public auction process increasing the miscellaneous revenues line item. Such sales were not necessary for the year ended July, 31, 2021 and therefore miscellaneous revenues declined.

Expenses

Total Expenses decreased by \$169,508 (1.5%). Operating Expenses, Net of Depreciation decreased by \$338,275 (5.2%). During the year ended July 31, 2021 Operating Expenses, Net of Depreciation decreased due to the following reasons: (1) salaries and wages for plant employees reduced by \$94,427

as an employee retired during the prior year and was not replaced, (2) plant maintenance and repairs decreased by \$39,377, (3) the cost of medical and prescription drug benefits decreased by \$44,931 primarily due to retirements during the current and prior year, (4) engineering services, not capitalized, reduced by 79,999, (5) electricity decreased by \$55,833, and (6) major noncapital purchases declined by \$45,028. It is typical for operating costs to fluctuate from year to year during the natural course of business.

Depreciation expense decreased by \$9,329 (0.3%) during the year ended July 31, 2021. The change in depreciation is minimal in the current year, due to relatively minor capital additions as well as reductions in depreciation expenses for assets that became fully depreciated or removed from service during the period.

Non-Operating Expenses increased by \$178,096 (11.9%). During the current year, the Authority refinanced both the 2015 and 2016 Bonds, with the 2020A and 2021 Bonds, respectively, resulting in bond issuance costs of \$423,655. During the prior year, the Authority only refinanced the 2013 Bonds, with the 2020 Bonds resulting in a bond issuance cost of \$244,628. Therefore, bond issuance costs were higher by \$179,027 during the current period.

Capital Contributions

Total Capital Contributions increased by \$45,425 (52.6%). The demand for access to the sewer system increased during the year resulting in more Tap-In Fees of \$45,425. There was no Developer Contribution Revenue. Revenues generated from Tap-In Fees and Developer Contribution Revenue directly correlate to area development and can fluctuate greatly from fiscal year to fiscal year based on need and timing.

Net Income (Loss)

During the fiscal year ended July 31, 2021, the Authority experienced a Net Loss of \$265,172, compared to the July 31, 2020 Net Loss of \$729,672.

CAPITAL IMPROVEMENTS

During the fiscal year, the Authority continued its ongoing capital improvement expenditures for rehabilitation and evaluation of the sewer system and upgrades to the wastewater treatment facility.

Capital projects and purchases made during the fiscal year included: wastewater treatment plant (WWTP) SCADA phase 1 (\$224,534), WWTP chlorine tank improvement project (\$71,484), two WWTP turbine blowers (\$70,410), WWTP lime dust control equipment (\$173,247), central storage equalization tank valve replacement (\$35,677), and a Ford F-250 4x4 pickup truck (\$34,318). There were no Developer Contributions for sewer extensions accepted by the Authority during the year.

The Authority continues to maintain Construction in Progress projects as of July 31, 2021 that includes the following projects: (1) *Rocklick Pump Station Replacement Project* design and permitting phase, (2) *Center Avenue Pump and Valve Replacement Program*, (3) *WWTP Aeration Tank Gate Actuator Project*, (4) *WWTP Automatic Chlorine Feed Equipment*, (5) *WWTP Sludge Thickener Upgrade Project*, (6) *WWTP Primary Clarifiers Project*, and (7) *CAP Project* design phase.

Depreciation expense decreased by \$9,329 (0.3%) during the year ended July 31, 2021.

DEBT

During 2013, the Authority issued \$10,000,000 in Sewer Revenue Bonds, to advance refund a portion (\$8,315,000) of the 2010 Bond issue. Proceeds of this issue were used to pay for the costs of the issue and establish an escrow account to partially defease the 2010 Bond debt. The Authority also received an economic gain of approximately \$340,000, as a result of reduced debt service payments compared to the 2010 Bond issue debt service schedule. At the end of the prior fiscal year, and after the 2020 Series current refunding of the debt, as described below and in the Notes, this loan was paid-in-full during the year ended July 31, 2020.

During 2015, the Authority issued \$9,965,000 in Sewer Revenue Bonds, to advance refund a portion (\$9,345,000) of the 2010 Bond issue. Proceeds of this issue were used to pay for the costs of the issue and establish an escrow account to partially defease the 2010 Bond debt. The Authority also received savings of approximately \$1,354,000 as a result of reduced debt service payments compared to the 2010 Bond issue debt service schedule. At the end of the fiscal year, and after the 2020A Series current refunding of the debt, as described below and in the Notes, this loan was paid-in-full during the year ended July 31, 2021.

In February 2016, the Authority issued new Sewer Revenue Bonds in the amount of \$9,895,000. Proceeds from this obligation were used to fund additional contributions to the Debt Service Reserve Fund, pay for costs of the bond issuance, and to provide funding for the various capital projects of the Authority, including the *Negley Avenue Pump Station Replacement Project*, *WWTP Headworks Improvements*, and *WWTP Sludge Dewatering Improvements*. At the end of the fiscal year, and after the 2021 Series current refunding of the debt, as described below and in the Notes, this loan was paid-in-full during the year ended July 31, 2021.

In October 2017, the Authority issued new Sewer Revenue Bonds (Series A and B) in the total amount of \$11,320,000. Proceeds from this obligation were used to pay for costs of the bond issuance, purchase a surety policy for deposit to the Debt Service Reserve Fund, and to refund various PennVest loans of the Authority. At the end of the fiscal year, the Authority had outstanding bond debt for Series A of \$8,325,000. Principal and interest payments will vary from year-to-year with the final payment due in 2032. The Series B Bonds matured in 2019 and are paid in full.

In 2020, the Authority issued new Sewer Revenue Bonds in the amount of \$9,910,000. Proceeds from this obligation were used to pay for costs of the bond issuance and current refund the 2013 Bonds in the amount of \$9,695,000. At the end of the fiscal year, the Authority had outstanding bond debt for this issue of \$9,745,000. Principal and interest payments will vary from year-to-year with the final payment due in 2034.

In October of 2020, the Authority issued new Sewer Revenue Bonds in the amount of \$8,510,000. Proceeds from this obligation were used to pay for costs of the bond issuance and current refund the 2015 Bonds in the amount of \$8,800,000. At the end of the fiscal year, the Authority had outstanding bond debt for this issue of \$7,950,000. Principal and interest payments will vary from year-to-year with the final payment due in 2031.

In April 2021, the Authority issued new Sewer Revenue Bonds in the amount of \$8,315,000. Proceeds from this obligation were used to pay for costs of the bond issuance and current refund the 2016 Bonds in the amount of \$8,665,000. At the end of the fiscal year, the Authority had outstanding bond debt for

this issue of \$8,290,000. Principal and interest payments will vary from year-to-year with the final payment due in 2041.

In February 2011, the Authority closed on a loan from PennVest in the amounts of \$13,087,500 to partially fund the *Butler City Act 537 Wet Weather Flow Equalization Tanks, Diversion Structures, and Pumping Station Facilities Projects* required by the Consent Order and Agreement (CO&A), respectively. The Authority completed the projects during the fiscal year ended July 31, 2014. Amortization payments of principal and interest continued during the fiscal year, leaving an outstanding balance as of July 31, 2020 of \$7,814,092 on the remaining loan. The final payment on this loan is scheduled for January 2032.

More detailed information about the Authority's long-term debt is presented in the Notes to Financial Statements.

CONDITIONS AFFECTING FUTURE FINANCIAL POSITION

The Authority continues to focus on capital improvement projects to address aging equipment and infrastructure in fiscally responsible ways to fund those projects while keeping our customers and the rate schedule in mind. The Authority evaluates capital projects on an ongoing basis by using input from the management team to establish priorities as well as the budget process and the Consulting Engineer's Annual Report as tools to assist in this on-going valuation.

DEP Chapter 94 Corrective Action Plan to Address Pump Station Overflows

At the request of the Authority, a meeting of Authority representatives and representatives from the Pennsylvania Department of Environmental Protection (DEP) was held on November 14, 2018. The purpose of the meeting was to discuss recurring wet weather sanitary sewer overflows (SSOs) during the 2018 record rainfall year associated with several of BASA's sewage pump stations and the corrective actions necessary to reduce the overloaded conditions and/or to provide the additional capacities, if necessary, to address the hydraulic overload conditions and eliminate these SSOs.

In response to this meeting, the Authority prepared and submitted a Corrective Action Plan (CAP) to address wet weather hydraulic overloading of specific pump stations within the Authority's sewer system. The CAP primarily focuses on three pump stations that have experienced recurring wet weather SSO events during 2018: the Fisher Heights Pump Station, the Brewster Booster Pump Station, and the Bryson Pump Station. The Fisher Heights Pump Station is not significantly affected by pumped flows from any upstream pump station. However, the Brewster Booster and Bryson Pump Stations are significantly affected hydraulically by pumped flows from other upstream pump stations. Therefore, the CAP had to consider the hydraulic interconnection of the upstream pump stations when identifying the cause of the SSOs and assessing corrective actions and any capital improvements to these two pump stations.

The CAP was subdivided into separate sections to address the following pump stations and pump station systems (listed by the pump station flow sequence):

1. The Fisher Heights, Brewster, and Brewster Booster Pump Station System (FBB); and
2. The Greenwood, Benbrook, and Bryson Pump Station System (GBB).

Although many of the CAP tasks are similar for each of these systems, the tasks were outlined for each specific system for scheduling and progress reporting purposes.

The DEP reviewed the Authority's draft CAP and requested a few minor revisions. The revised CAP dated March 11, 2019 was formally approved by the DEP in a letter dated March 26, 2019.

In August 2019, the Authority hired Herbert Rowland and Grubic, Inc. (HRG) to provide engineering services to assist the Authority in completing the pump station assessments and preliminary design evaluation of alternative solutions for the approved CAP. This assessment was completed during the fourth quarter of 2020. HRG has since been contracted to proceed with planning and design services for phases 01 through 05 for the FBB and GBB areas to satisfy the CAP at a cost of \$735,400. The estimated total cost of the combined FBB and GBB projects is \$12,000,000 and is expected to be completed by June 2024. As of July 31, 2021, the Authority has successfully complied with the CAP tasks and implementation schedule and has also continued to provide quarterly progress reports to the DEP in a timely manner. Funding for this project is expected to be provided through a new bond issue.

Private Sector Solicitation to Purchase Authority Operations

During the year, the Authority was contacted by two private sector wastewater providers for consideration of the sale of all Authority assets and therefore ultimately the dissolution of the wastewater Authority. No agreement has been entered, but the ultimate outcome of this inquiry is unknown as of the date of this report.

CONTACTING THE AUTHORITY

If you have any questions about this report or need additional financial information, contact the Butler Area Sewer Authority's Finance Director or Executive Director at 100 Litman Road, Butler, PA 16001-3256.

BUTLER AREA SEWER AUTHORITY

STATEMENTS OF NET POSITION

JULY 31, 2021 AND 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,682,187	\$ 7,160,047
Investments:		
Trusteed accounts	7,490,655	6,555,331
Other	-	2,699,000
Accounts receivable	2,139,656	2,093,796
Unbilled sewer receivable	944,700	906,400
Total current assets	<u>20,257,198</u>	<u>19,414,574</u>
Non-current assets:		
Capital assets, not being depreciated	1,181,850	1,031,065
Capital assets, net of accumulated depreciation	<u>59,258,482</u>	<u>62,139,662</u>
Total capital assets	<u>60,440,332</u>	<u>63,170,727</u>
Total non-current assets	<u>60,440,332</u>	<u>63,170,727</u>
Total Assets	<u>80,697,530</u>	<u>82,585,301</u>
Deferred Outflows of Resources		
Deferred charge on refunding	<u>954,774</u>	<u>1,047,903</u>
Liabilities		
Current liabilities:		
Vouchers payable	178,832	73,500
Accrued expenses	955,663	931,434
Current maturities of bonds payable	1,760,000	1,805,000
Current portion of notes payable	<u>635,854</u>	<u>624,201</u>
Total current liabilities	<u>3,530,349</u>	<u>3,434,135</u>
Non-current liabilities:		
Bonds payable, net of unamortized discount and premium	33,520,787	34,688,602
Notes payable	7,178,238	7,814,092
OPEB liability	<u>4,264,068</u>	<u>4,169,524</u>
Total non-current liabilities	<u>44,963,093</u>	<u>46,672,218</u>
Total Liabilities	<u>48,493,442</u>	<u>50,106,353</u>
Deferred Inflows of Resources		
Deferred inflows of resources for OPEB	<u>411,269</u>	<u>514,086</u>
Net Position		
Net investment in capital assets	18,300,227	19,633,450
Restricted	7,490,655	6,208,616
Unrestricted	<u>6,956,711</u>	<u>7,170,699</u>
Total Net Position	<u>\$ 32,747,593</u>	<u>\$ 33,012,765</u>

See accompanying notes to financial statements.

BUTLER AREA SEWER AUTHORITYSTATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

YEARS ENDED JULY 31, 2021 AND 2020

	2021	2020
Operating Revenues:		
Sewer charges - non-industrial waste	\$ 10,352,097	\$ 10,069,349
Sewer charges - industrial waste	340,654	304,051
Other operating fees and charges	144,273	203,150
Total operating revenues	<u>10,837,024</u>	<u>10,576,550</u>
Operating Expenses:		
Operations and maintenance	5,026,355	5,372,404
Administration	1,113,770	1,105,996
Depreciation	3,685,849	3,695,178
Total operating expenses	<u>9,825,974</u>	<u>10,173,578</u>
Operating Income (Loss)	<u>1,011,050</u>	<u>402,972</u>
Non-Operating Revenues (Expenses):		
Interest income	196,049	281,165
Interest expense	(1,251,394)	(1,252,308)
Bond issuance costs	(423,655)	(244,628)
Loss on disposal of capital assets	(3,275)	(3,292)
Amortization	74,282	73
Total non-operating revenues (expenses)	<u>(1,407,993)</u>	<u>(1,218,990)</u>
Income (Loss) Before Capital Contributions	<u>(396,943)</u>	<u>(816,018)</u>
Capital Contributions:		
Tap-in fees	131,771	86,346
Total capital contributions	<u>131,771</u>	<u>86,346</u>
Net Income (Loss)	<u>(265,172)</u>	<u>(729,672)</u>
Net Position:		
Beginning of year	<u>33,012,765</u>	<u>33,742,437</u>
End of year	<u>\$ 32,747,593</u>	<u>\$ 33,012,765</u>

See accompanying notes to financial statements.

BUTLER AREA SEWER AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED JULY 31, 2021 AND 2020

	2021	2020
Cash Flows From Operating Activities:		
Sewer charges and fees	\$ 10,752,864	\$ 10,438,600
Operations and maintenance	(4,905,067)	(5,791,007)
Administrative expenses	(1,113,770)	(1,105,996)
Net cash provided by (used in) operating activities	<u>4,734,027</u>	<u>3,541,597</u>
Cash Flows From Capital and Related Financing Activities:		
Tap-in fees	131,771	86,346
Proceeds from bonds payable	16,825,000	9,910,000
Principal paid on capital debt	(19,579,201)	(12,062,762)
Interest paid on capital debt	(590,453)	(1,330,851)
Payments related to the acquisition, construction, or improvement of capital assets	(958,729)	(296,183)
Net cash provided by (used in) capital and related financing activities	<u>(4,171,612)</u>	<u>(3,693,450)</u>
Cash Flows From Investing Activities:		
Interest and dividends	196,049	281,165
Proceeds from sale (purchase) of long-term investments	1,763,676	(11,684)
Net cash provided by (used in) investing activities	<u>1,959,725</u>	<u>269,481</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>2,522,140</u>	<u>117,628</u>
Cash and Cash Equivalents:		
Beginning of year	<u>7,160,047</u>	<u>7,042,419</u>
End of year	<u>\$ 9,682,187</u>	<u>\$ 7,160,047</u>
Reconciliation of Operating Income (Loss) to Net Cash and Cash Equivalents Provided by (Used in) Operating Activities:		
Operating income (loss)	\$ 1,011,050	\$ 402,972
Adjustments to reconcile operating income (loss) to cash and cash equivalents provided by (used in) operating activities:		
Depreciation	3,685,849	3,695,178
Change in assets and liabilities:		
Accounts and unbilled sewer receivables	(84,160)	(137,950)
Vouchers payable and accrued expenses	129,561	(393,369)
OPEB liability	94,544	(539,320)
Deferred inflows of resources - OPEB	(102,817)	514,086
Total adjustments	<u>3,722,977</u>	<u>3,138,625</u>
Net cash provided by (used in) operating activities	<u>\$ 4,734,027</u>	<u>\$ 3,541,597</u>

See accompanying notes to financial statements.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

1. Organization

The Butler Area Sewer Authority (Authority) is a body corporate and politic organized under the Municipality Authorities Act of 1945, P.L. 382 (Act), as amended and supplemented having been duly organized, under said Act by joint action of the City of Butler (City) and the Township of Butler (Township), both of Butler County, Pennsylvania. Its Certificate of Incorporation was issued by the Secretary of the Commonwealth of Pennsylvania on November 13, 1962. On May 6, 1997, the articles of incorporation were amended to extend the existence of the Authority to February 6, 2046.

The Authority provides sanitary sewer collection and treatment for the City of Butler, Township of Butler, Center Township, areas in East Butler Borough, and limited areas of Summit, Connoquenessing, and Oakland Townships.

2. Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting Entity

The report includes all of the services provided by the Authority to residents and businesses within its service area. Authority services provided include operation and maintenance of sewage collection and treatment facilities.

The Board is comprised of five members, with two members appointed by the Township and three appointed by the City. The Authority is not considered a component unit of either the Township or the City. The Authority is not financially accountable to either the Township or the City, nor does the Authority create a financial benefit or burden to either the Township or the City. The City appoints a majority of Board members to the Authority, but because the City cannot replace the Board members at will once they have been appointed, they do not exercise control of the Board.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Basis of Accounting

The activities of the Authority are presented as an Enterprise Fund because the operations are financed and managed in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

As an Enterprise Fund, the Authority uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when the liability is incurred.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operation of the Authority. Operating revenues consist primarily of user charges. Non-operating revenues and expenses consist of those revenues and expenses that are related to the financing and investing types of activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Authority's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Estimates

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments, principally money market funds, are carried at fair value.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Accounts Receivable

Accounts receivable consists of unpaid customer sewer billings at July 31, 2021 and 2020. No provision is made for uncollectible accounts, as these charges are lienable charges to the property served.

Unbilled Sewer Receivable

Unbilled sewer receivable represents an estimate of sewer services provided to customers that have not yet been billed.

Capital Assets

Capital assets, which include land, sewer system, pump stations, plant, vehicles, and construction in progress, are recorded at cost. The costs of maintenance and repairs that do not enhance the functionality of the asset or materially extend asset lives are not capitalized. The capitalization threshold is \$5,000 for all new purchases. Depreciation of all capital assets is charged against operations. Depreciation on assets has been provided using the straight-line method over the estimated useful lives, as follows:

Sewer system	5 to 40 years
Pump stations	5 to 40 years
Plant	5 to 40 years
Vehicles	5 years

Compensated Absences

The Authority provides paid vacation, personal, and sick leave benefits to all eligible employees. Vacation days can be accumulated by eligible employees, not to exceed 24 days. Personal days are granted annually to eligible full-time employees; however, they may not be carried over from calendar year to calendar year. Sick leave can be accumulated by employees, not to exceed 130 days. The Authority’s policy at the time of separation of employment is to pay unused vacation, personal, and sick leave at the time of separation. The balance of compensated absences at July 31, 2021 and 2020 was \$833,345 and \$812,729, respectively, and is recorded in accrued expenses on the statements of net position.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Bond Discounts and Bond Premiums

Bond discounts and bond premiums are deferred and amortized over the life of the related bonds using the straight-line method. The unamortized balances of the bond discount and bond premium are recorded as a reduction of the related bond payable. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses.

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statements of net position report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has one item that qualifies for reporting in this category, the deferred charge on refunding. The deferred charge on refunding resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has the following items that qualify for reporting in this category. In conjunction with other post-employment benefits (OPEB) accounting requirements, differences between expected and actual experience, and changes in assumption are recorded as deferred inflows of resources for OPEBs. These amounts are determined based on an actuarial valuation performed for the OPEB Plan. See Note 7 for additional information about the OPEB plan.

Net Position

Accounting standards require the classification of net position into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

- Restricted – This component of net position consists of constraints placed on net position use through external restrictions.
- Unrestricted – This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted.”

Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 87 (Leases), 89 (Accounting for Interest Cost), 91 (Conduit Debt Obligations), 92 (Omnibus 2020), 94 (Public-Private and Public-Public Partnerships), 96 (Information Technology Arrangements), and 97 (Deferred Compensation Plans). Management has not yet determined the impact of these statements on the financial statements.

3. Deposits and Investments

In accordance with the Municipality Authorities Act and Act 10 of the Pennsylvania state legislature, in addition to deposits in institutions insured by the Federal Deposit Insurance Corporation (FDIC), the Authority may invest in any of the following: United States Treasury Bills, short-term obligations of the United States Government or its agencies or instrumentalities, obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States or the Commonwealth of Pennsylvania, commercial paper, bankers’ acceptance, and negotiable certificates of deposits. There were no deposit or investment transactions during the years ended July 31, 2021 and 2020 that were in violation of these policies.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

The following is a description of the Authority's deposit and investment risks:

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal deposit policy for custodial credit risk.

At times, the Authority holds certificates of deposit through Pennsylvania Local Government Investment Trust (PLGIT), in the name of the Authority, and maturing within one year, that are fully covered under the FDIC's general deposit insurance rules. These deposits are reported as investments in the statements of net position in the amount of \$0 and \$2,699,000 for 2021 and 2020, respectively.

As of July 31, 2021, \$6,198,523 of the Authority's bank balance of \$6,448,523 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution. These deposits have carrying amounts of \$6,437,620 as of July 31, 2021 and are reported as cash and cash equivalents in the statements of net position. As of July 31, 2021, \$250,000 of the Authority's deposits was covered by FDIC insurance.

As of July 31, 2020, 6,457,885 of the Authority's bank balance of \$6,707,885 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution. These deposits have carrying amounts of \$6,656,800 as of July 31, 2020 and are reported as cash and cash equivalents in the statements of net position. As of July 31, 2020, \$250,000 of the Authority's deposits was covered by FDIC insurance.

In addition to the deposits noted above, included in cash and cash equivalents on the statements of net position are PLGIT investments of \$3,244,567 and \$503,247 at July 31, 2021 and 2020, respectively. The fair value of the Authority's investments in PLGIT is the same as the value of the pool shares.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Investments

Included on the statements of net position are the following investments held by the Authority at July 31, 2021 and 2020:

Investment Type	2021		2020	
	Fair Value	Maturity in years Less than 1 year	Fair Value	Maturity in years Less than 1 year
Money market funds	\$ 7,490,655	\$ 7,490,655	\$ 6,555,331	\$ 6,555,331
Total Investments	<u>\$ 7,490,655</u>	<u>\$ 7,490,655</u>	<u>\$ 6,555,331</u>	<u>\$ 6,555,331</u>

The fair value of the Authority's investments is the same as their carrying amount.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Authority has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations.

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 the investments or collateral securities that are in the possession of the outside entity. The Authority does not have a formal investment policy for custodial credit risk.

Concentration of Credit Risk - The Authority places no limit on the amount the Authority may invest in any one issuer.

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.

Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

significant unobservable inputs. The Authority has no assets as of July 31, 2021 and 2020 requiring such valuation.

4. Capital Assets

A summary of changes in capital assets for the years ended July 31, 2021 and 2020 are as follows:

	Balance at August 1, 2020	Additions/ Transfers	Deletions/ Transfers	Balance at July 31, 2021
Land	\$ 821,425	\$ -	\$ -	\$ 821,425
Construction in progress	209,640	150,785	-	360,425
Capital assets, not being depreciated	<u>\$ 1,031,065</u>	<u>\$ 150,785</u>	<u>\$ -</u>	<u>\$ 1,181,850</u>
Vehicles	\$ 864,336	\$ 34,318	\$ (47,502)	\$ 851,152
Sewer system	59,740,751	69,024	(221,188)	59,588,587
Pump stations	38,323,993	76,156	-	38,400,149
Plant	36,584,219	628,446	(18,228)	37,194,437
Capital assets, being depreciated	135,513,299	807,944	(286,918)	136,034,325
Less: accumulated depreciation	<u>(73,373,637)</u>	<u>(3,685,849)</u>	<u>283,643</u>	<u>(76,775,843)</u>
Capital assets, net of accumulated depreciation	<u>\$ 62,139,662</u>	<u>\$ (2,877,905)</u>	<u>\$ (3,275)</u>	<u>\$ 59,258,482</u>
Total capital assets, net	<u><u>\$ 63,170,727</u></u>	<u><u>\$ (2,727,120)</u></u>	<u><u>\$ (3,275)</u></u>	<u><u>\$ 60,440,332</u></u>

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

	Balance at August 1, 2019	Additions/ Transfers	Deletions/ Transfers	Balance at July 31, 2020
Land	\$ 821,425	\$ -	\$ -	\$ 821,425
Construction in progress	283,477	124,548	(198,385)	209,640
Capital assets, not being depreciated	<u>\$ 1,104,902</u>	<u>\$ 124,548</u>	<u>\$ (198,385)</u>	<u>\$ 1,031,065</u>
Vehicles	\$ 878,276	\$ 42,113	\$ (56,053)	\$ 864,336
Sewer system	59,766,286	6,907	(32,442)	59,740,751
Pump stations	38,263,878	60,115	-	38,323,993
Plant	<u>36,600,592</u>	<u>260,885</u>	<u>(277,258)</u>	<u>36,584,219</u>
Capital assets, being depreciated	135,509,032	370,020	(365,753)	135,513,299
Less: accumulated depreciation	<u>(70,040,920)</u>	<u>(3,695,178)</u>	<u>362,461</u>	<u>(73,373,637)</u>
Capital assets, net of accumulated depreciation	<u>\$ 65,468,112</u>	<u>\$ (3,325,158)</u>	<u>\$ (3,292)</u>	<u>\$ 62,139,662</u>
Total capital assets, net	<u><u>\$ 66,573,014</u></u>	<u><u>\$ (3,200,610)</u></u>	<u><u>\$ (201,677)</u></u>	<u><u>\$ 63,170,727</u></u>

5. DebtBonds Payable

During 2013, the Authority issued Sewer Revenue Bonds, Series of 2013 (2013 Bonds) in the amount of \$10,000,000, the proceeds of which were used to partially advance refund the 2010 Bonds. The interest rates of the 2013 Bonds vary between 2.00% and 3.50% and mature from 2016 to 2034. The refunding of the 2010 Bonds generated a deferred charge on refunding of \$1,323,253, which is amortized over the life of the 2013 Bonds. These Bonds were refunded during the year ended July 31, 2020.

During October 2015, the Authority issued Sewer Revenue Bonds, Series of 2015 (2015 Bonds), in the amount of \$9,965,000 to advance refund \$9,345,000 of the 2010 Bonds, and pay costs related to the issuance and sale of the bonds. The interest rates vary between 2.00% and 4.00% and mature from 2016 to 2031. The refunding of the 2010 Bonds generated a deferred charge on refunding of \$399,230, which is amortized over the life of the 2015 Bonds. These Bonds were refunded during the year ended July 31, 2021.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

During February 2016, the Authority issued Sewer Revenue Bonds, Series of 2016 (2016 Bonds), in the amount of \$9,895,000 to finance various capital projects of the Authority, fund a deposit to the Debt Service Reserve Fund, and pay related costs and expenses of issuing the bonds. The interest rates vary between 2.00% and 4.00% and mature from 2017 to 2041. These Bonds were refunded during the year ended July 31, 2021.

During October 2017, the Authority issued Sewer Revenue Bonds, Series A and Series B of 2017 (2017 Bonds), in the amount of \$9,995,000 and \$1,325,000, respectively, a total of \$11,320,000 to refund certain PennVest notes payable, purchase a surety policy for deposit to the Debt Service Reserve Fund, and pay related costs and expenses of issuing the bonds. For Series A, the interest rates vary between 2.00% and 3.00% and mature from 2019 to 2032. The 2017 Series B Bonds matured in 2019.

During February 2020, the Authority issued Sewer Revenue Bonds, Series 2020 (2020 Bonds), in the amount of \$9,910,000 to current refund the 2013 Bonds and pay related costs and expenses of issuing the bonds. The interest rates vary between 2.00% and 5.00% and mature from 2020 to 2034.

During October 2020, the Authority issued Sewer Revenue Bonds, Series 2020A (2020A Bonds), in the amount of \$8,510,000 to current refund the 2015 Bonds and pay related costs and expenses of issuing the bonds. The interest rates vary between 1.00% and 5.00% and mature from 2021 to 2031.

During April 2021, the Authority issued Sewer Revenue Bonds, Series 2021 (2021 Bonds), in the amount of \$8,315,000 to current refund the 2016 Bonds and pay related costs and expenses of issuing the bonds. The interest rates vary between 2.00% and 5.00% and mature from 2021 to 2041.

In the event of default, the bondholder may demand immediate payment of all outstanding principal and accrued interest. All Bonds are secured by pledged revenues derived by the Authority from the operations of the Sewer System. The bonds contain certain covenants as to the Authority, with respect to which the Authority is in compliance.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Annual maturities of the bonds payable at July 31, 2021 are as follows:

Year Ending July 31,	Principal	Interest	Total
2022	\$ 1,760,000	\$ 849,332	\$ 2,609,332
2023	1,825,000	786,232	2,611,232
2024	1,890,000	720,332	2,610,332
2025	1,980,000	651,582	2,631,582
2026	2,100,000	578,366	2,678,366
2027-2031	11,510,000	2,126,448	13,636,448
2032-2036	10,710,000	785,400	11,495,400
2037-2041	2,535,000	156,950	2,691,950
Total Payments	34,310,000		
Plus: Unamortized Bond Discount/Premium	970,787		
	<u>\$ 35,280,787</u>	<u>\$ 6,654,642</u>	<u>\$ 40,964,642</u>

Notes Payable - PennVest

During 2011, the Authority entered into a loan agreement with PennVest. The loan proceeds of \$13,087,500 were used to fund the Butler City Act 537 Project. This direct borrowing is secured by a parity first lien on the Authority's sewer revenues and contains provisions that in the event of default, (1) the outstanding principal balance and any accrued and unpaid interest to be immediately due and payable in full, and (2) PennVest may exercise any and all rights in the security interest in the Project collateral. Principal payments of \$624,201 and \$612,762 were made for the years ended July 31, 2021 and 2020, respectively. The interest rate for the first sixty months was 1.437% and is 1.851% for the remainder of the loan. Principal and interest payments are due in monthly installments of \$62,775 for the first 30 months, \$62,690 for the next 30 months, and \$64,593 for the remainder of the loan with the final payment scheduled for August 2032.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Principal and interest payable in future years on all of the PennVest notes are as follows:

<u>Fiscal Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 635,854	\$ 139,262	\$ 775,116
2023	647,724	127,392	775,116
2024	659,815	115,301	775,116
2025	672,133	102,983	775,116
2026	684,680	90,436	775,116
2027-2031	3,619,961	255,619	3,875,580
2032-2033	893,925	10,377	904,302
	<u>\$ 7,814,092</u>	<u>\$ 841,370</u>	<u>\$ 8,655,462</u>

Changes in Long-Term Liabilities

The following is a summary of debt transactions of the Authority for the year ended July 31, 2021:

	<u>Balance at August 1, 2020</u>	<u>Issuance</u>	<u>Payments</u>	<u>Balance at July 31, 2021</u>	<u>Due within one year</u>
Sewer Revenue Bonds (2015)	\$ 8,800,000	\$ -	\$ (8,800,000)	\$ -	\$ -
Sewer Revenue Bonds (2016)	8,665,000	-	(8,665,000)	-	-
Sewer Revenue Bonds (2017)	9,140,000	-	(815,000)	8,325,000	835,000
Sewer Revenue Bonds (2020)	9,835,000	-	(90,000)	9,745,000	100,000
Sewer Revenue Bonds (2020A)	-	8,510,000	(560,000)	7,950,000	505,000
Sewer Revenue Bonds (2021)	-	8,315,000	(25,000)	8,290,000	320,000
Notes from direct borrowings:					
PennVest Note (2011)	8,438,293	-	(624,201)	7,814,092	635,854
Payable, end of year	<u>\$ 44,878,293</u>	<u>\$ 16,825,000</u>	<u>\$ (19,579,201)</u>	<u>\$ 42,124,092</u>	<u>\$ 2,395,854</u>

Amounts above and below do not reflect an original issue discount in the amount of \$108,642 and \$119,474, as of July 31, 2021 and 2020, respectively, for the 2013 Bonds and 2017 Bonds. The discount is amortized using the straight-line method over the shorter of the life of the original or refunded bonds.

Amounts above and below do not reflect an original issue premium in the amount of \$1,079,429 and \$173,076, as of July 31, 2021 and 2020, respectively, for the 2015 Bonds, 2016 Bonds, 2020 Bonds, 2020A Bonds, and 2021 Bonds. The premium is amortized using the straight-line method over the shorter of the life of the original or refunded bonds.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

The following is a summary of debt transactions of the Authority for the year ended July 31, 2020:

	Balance at August 1, 2019	Issuance	Payments	Balance at July 31, 2020	Due within one year
Sewer Revenue Bonds (2013)	\$ 9,695,000	\$ -	\$ (9,695,000)	\$ -	\$ -
Sewer Revenue Bonds (2015)	9,355,000	-	(555,000)	8,800,000	565,000
Sewer Revenue Bonds (2016)	8,990,000	-	(325,000)	8,665,000	335,000
Sewer Revenue Bonds (2017)	9,940,000	-	(800,000)	9,140,000	815,000
Sewer Revenue Bonds (2020)	-	9,910,000	(75,000)	9,835,000	90,000
Notes from direct borrowings:					
PennVest Note (2011)	9,051,055	-	(612,762)	8,438,293	624,201
Payable, end of year	<u>\$ 47,031,055</u>	<u>\$ 9,910,000</u>	<u>\$ (12,062,762)</u>	<u>\$ 44,878,293</u>	<u>\$ 2,429,201</u>

Neither the credit nor the taxing power of the City, the Township, or any political subdivision other than the Authority is pledged for the payment of the debt service payable. The debt is not an obligation of the City, the Township, or any other political subdivision other than the Authority.

6. Pension Plan

As of February 29, 2008, the accrued benefits for each participant of the defined benefit Pension Plan for Employees of Butler Area Sewer Authority (Plan) were calculated as actuarial equivalent account balances for the purpose of establishing individual account balances for the conversion of the Plan into a 401(a) defined contribution plan. As of the conversion date, no additional defined benefits accrued under the Plan and effective March 1, 2008, the Plan began as a defined contribution plan. As of July 31, 2021, all Authority employees that were eligible participated in the Plan. The Plan requires that all employees be employed at least twelve consecutive months and work a minimum of 1,000 hours during this period, as defined by the Plan document, to be eligible to participate. The Plan year is defined as the calendar year. Beginning January 1, 2018, participants and employers are required to contribute 5% and 7.5%, respectively, of eligible compensation. Employee and employer contributions to the Plan were \$131,524 and \$197,562, respectively, for the year ended July 31, 2021. Employee and employer contributions to the Plan were \$134,944 and \$204,194, respectively, for the year ended July 31, 2020.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Effective March 1, 2008, the Authority adopted the Butler Area Sewer Authority 457(b) Plan (457(b) Plan). The 457(b) Plan year is defined as a calendar year and eligibility requirements of the 457(b) Plan prior to November 1, 2018, are consistent with the eligibility requirements of the Plan noted above. Effective November 1, 2018, contributions to the 457(b) Plan continue to be on a voluntary basis, but may commence upon employment with the Authority, provided applicable enrollment documents are in place. As of July 31, 2021, all of the Authority's employees are eligible to participate in the 457(b) Plan. Employee contributions are permitted up to the lesser of 100% of a participant's annual salary or the maximum annual dollar amount permitted by law. Employee contributions were \$98,129 and \$102,440 for the years ended July 31, 2021 and 2020, respectively.

Effective January 1, 2010, the Authority adopted the 457 Governmental Deferred Compensation Plan & Trust (Governmental Plan), in addition to the existing 457(b) Plan. The Governmental Plan year is defined as a calendar year. Contributions to the Governmental Plan are on a voluntary basis and may commence upon employment with the Authority, provided applicable enrollment documents are in place. As of July 31, 2021, all of the Authority's employees are eligible to participate in the Governmental Plan. Employee contributions are permitted up to the lesser of 100% of a participant's annual salary or the maximum dollar amount permitted by law. Employee contributions for the years ended July 31, 2021 and 2020 were \$13,408 and \$8,391, respectively.

7. Postemployment Benefits Other Than Pension Benefits (OPEBs)Plan Description

In addition to the benefits described in Note 6, the Authority provides postemployment healthcare benefits in accordance with a labor agreement between the Authority and the American Federation of State, County, and Municipal Employees. The OPEB plan is a single-employer defined benefit OPEB plan administered by the Authority. No assets are accumulated in a trust to pay related benefits.

If an employee was hired prior to August 1, 2010, normal retirement is age 65, but those participants who retire after December 31, 2000 are eligible for OPEB benefits after attaining age 62. If an employee was hired on or after August 1, 2010, no post-employment benefits are payable. Covered individuals are employees, their spouses, and eligible dependents.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Benefits Provided

For those eligible employees retiring between ages 62 and 64, the Authority pays up to 97% of the cost of the medical and prescription drug premium on a plan comparable to the Authority's active employee medical plan until Medicare eligibility (a period not to exceed 36 months). No dental or vision benefits are provided. Upon Medicare eligibility, the retiree must convert to a Medicare Advantage Plan. The Authority pays the full cost of the designated retiree's Medicare Advantage premium, provided that Medicare eligibility is sustained. For those employees retiring at age 65, the Authority pays the full cost of the designated retiree's Medicare Advantage premium, provided that Medicare eligibility is sustained.

For spouses and eligible dependent(s) who are under age 65, the Authority will pay up to 97% of the medical and prescription drug premium on a plan comparable to the Authority's active employee medical plan for a period not to exceed 36 months from the date of retirement, or until the retiree reaches Medicare eligibility, whichever comes first. If the retiree becomes Medicare eligible prior to the expiration of the maximum 36-month period, the spouse will be placed in COBRA until the earlier of 36-month or reaching Medicare eligibility. Upon the spouse reaching Medicare eligibility (whether immediately if already at or past Medicare eligibility at the date of retirement, during the first 36 months following retirement, or after the 36 months of coverage if the Authority's plan lapses), the Authority will pay the full cost of the spouse's Medicare Advantage premium, provided that Medicare eligibility is sustained. All Authority-paid benefits to the spouse cease upon the death of the retiring employee. All Authority-paid benefits to dependents cease upon the earlier of the expiration of 36 months following the retiree's retirement date, the spouse's eligibility for Medicare, or the retiree's death.

For pre-age 65 coverage, a PPO \$500/\$1000 Deductible Plan administered by Municipal Benefits Services is available. For post-age 65 coverage, a Medicare Advantage Plan is available, where Highmark bills the Authority through the retiree.

Contributions

The Authority will pay costs up to 97% of the active employee group rate as of the date of retirement towards the retiree group rate for a maximum period of 36 months as described above. The retiree must reimburse the Authority for the difference between the retiree and active plan premiums, if any, and any premium increases after retirement.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Employees Covered by Benefit Terms

As of August 1, 2019, the date of the most recent actuarial valuation, the following employees were covered by the benefit terms:

Current retired participants receiving OPEB benefits	17
Active participants eligible for future OPEB benefits	<u>25</u>
	<u>42</u>

Total OPEB Liability

The Authority's total OPEB liability of \$4,264,068 was measured as of August 1, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of August 1, 2019 using the following actuarial assumptions, applied to all periods including the measurement:

Inflation	2.75%
Discount rate	2.75% per year
Healthcare cost trend rates	0.00% for 2019; 5.0% per year thereafter
Retirees' share of benefit-related costs	The Authority will pay costs up to 97% of the active employee base group rate as of the date of retirement towards the retiree group rate for a maximum period of 36 months. The retiree must reimburse the Authority for the difference between the retiree and active plan premiums, if any, and any premium increases after retirement.

The discount rate was based on the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality rates were based on the RP-2014 Mortality Table with 50% of Blue-Collar Adjustment.

The actuarial assumptions used in the August 1, 2019 valuation were based on the results of an actuarial experience study as of August 1, 2019.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 31, 2020	\$ 4,169,524
Changes for the year:	
Service cost	111,110
Interest	115,908
Changes in assumptions or other input	-
Differences between expected and actual experience	-
Benefit payments	<u>(132,474)</u>
Net changes	<u>94,544</u>
Balance at July 31, 2021	<u><u>\$ 4,264,068</u></u>

There were no changes of benefit terms.

The discount rate was reduced from 3.5% to 2.75% to more accurately reflect the high quality long-term municipal bond rate published by the Federal Reserve.

The withdrawal assumption was updated from Table T-2, *Actuary's Pension Handbook* to Table T-1, *Actuary's Pension Handbook*. The assumed coverage level for future retirees was changed from 20% individual, 80% husband/wife to 40% individual and 60% husband/wife with the spouse age difference increased from 2 years to 3 years.

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

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate as of July 31, 2021:

	<u>1% Decrease (1.75%)</u>	<u>Discount Rate (2.75%)</u>	<u>1% Increase (3.75%)</u>
Total OPEB liability	\$ 4,961,743	\$ 4,264,068	\$ 3,692,664

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates as of July 31, 2021:

	1% Decrease (1.75%)	Discount Rate (2.75%)	1% Increase (3.75%)
Total OPEB liability	\$ 3,564,782	\$ 4,264,068	\$ 5,156,309

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

For the year ended July 31, 2021, the Authority recognized OPEB expense of \$124,201. At July 31, 2021, the Authority had the following deferred outflows of resources and deferred inflows or resources related to OPEB:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 370,002
Changes of assumptions	-	41,267
	<u>\$ -</u>	<u>\$ 411,269</u>

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

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

<u>Year Ending July 31,</u>		
2022	\$	(102,817)
2023		(102,817)
2024		(102,817)
2025		(102,818)
2026		-
	<u>\$</u>	<u>(411,269)</u>

8. Environmental and Other Contingent LiabilitiesDEP Chapter 94 Corrective Action Plan (CAP) of 2019

On March 11, 2019, the Authority submitted a voluntary Corrective Action Plan (CAP) with the Pennsylvania Department of Environmental Protection (DEP) to address the hydraulic overloads that have been identified in portions of the Authority's sewer conveyance system, which was approved by the DEP on March 26, 2019. The CAP includes various tasks related to the Fisher Heights Pump Station, Brewster & Brewster Booster Pump Station System (FBB), and Greenwood, Benbrook, and Bryson Pump Station System (GBB) with work to be completed through June 2024.

Pump station assessments and preliminary design evaluation of alternatives for the approved CAP were completed and finalized during the fourth quarter of 2020. At their meeting on December 8, 2020, the Authority Board accepted a proposal to proceed with engineering services for phases 01, 02, and 03 for a lump sum fee of \$683,400 to perform the planning, design and other professional services related to the CAP alternatives analysis for the FBB and GBB drainage areas. At their meeting on July 13, 2021, the Authority Board authorized engineering services for phases 04 and 05 in the amount of \$52,000.

Once completed, these engineering services will assess, recommend, design, and implement the necessary structural improvements to the FBB and GBB systems to satisfy the CAP. The recommended structural improvements, currently estimated at \$12,000,000, include new submersible pumps and equalization facilities to temporarily store excess wet weather flows during storm events. The Authority is in the process of analyzing this current

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2021 AND 2020

estimate and consulting with Bond Counsel on the financing options available to fund this project.

As of July 31, 2021, the Authority has successfully complied with the CAP tasks and the CAP implementation schedule. The Authority has also submitted quarterly progress reports to the DEP in a timely manner as required by the CAP.

Act 43 of 2021

On June 30, 2021, P.L. 208, No. 43 (Act 43), Pennsylvania House Bill 957, was passed into law, to become effective in 60 days, amending Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes, in municipal authorities, further providing for purpose and powers. This change in statute may have an effect on the Authority's billable revenues by establishing an opportunity for the owner of multiple residential units that are served by a single water meter to request a review and possible adjustment to the current billable rate. The impact of Act 43 on the Authority is unknown at this time.

9. Commitments

As of July 31, 2021, the Authority has entered into construction contracts that have not been completed as of the end of the fiscal year. Amounts remaining on the contracts for construction services not performed as of July 31, 2021 total approximately \$906,000. Work is scheduled to be completed on these projects during the upcoming fiscal year.

10. Operations

The Authority has received solicitation to purchase its operations from outside entities. The Authority has not formally acted on the solicitations and are considering the feasibility of a sale.

REQUIRED SUPPLEMENTARY INFORMATION

BUTLER AREA SEWER AUTHORITYSCHEDULE OF CHANGES IN THE AUTHORITY'S
TOTAL OPEB LIABILITY AND RELATED RATIOSYEAR ENDED JULY 31
LAST 10 FISCAL YEARS*

	2021	2020	2019	2018
Total OPEB Liability:				
Service cost	\$ 111,110	\$ 108,136	\$ 128,003	\$ 124,577
Interest	115,908	113,534	161,018	154,796
Differences between expected and actual experiences	-	(555,002)	-	-
Changes of assumptions	-	(61,901)	-	-
Benefit payments	(132,474)	(144,087)	(104,459)	(105,616)
Net change in Total OPEB Liability	94,544	(539,320)	184,562	173,757
Total OPEB Liability - Beginning	4,169,524	4,708,844	4,524,282	4,350,525
Total OPEB Liability - Ending	\$ 4,264,068	\$ 4,169,524	\$ 4,708,844	\$ 4,524,282
Covered Employee Payroll	\$ 1,630,730	\$ 1,878,279	\$ 1,916,392	\$ 2,237,929
Total OPEB Liability as a percentage of Covered Employee Payroll	261.48%	221.99%	245.71%	202.16%

*Until a full 10-year trend is compiled, the required information for the plan is presented for those years for which information is available.

See accompanying notes to required supplementary information.

BUTLER AREA SEWER AUTHORITY

NOTES TO REQUIRED
SUPPLEMENTARY INFORMATION

YEARS ENDED JULY 31, 2021 AND 2020

Accumulated Assets

No assets are accumulated in a trust to pay related benefits.

Benefit Changes

There were no changes of benefit terms.

Changes of Assumptions

In the August 1, 2019 actuarial valuation, the discount rate was reduced from 3.5% to 2.75%; the withdrawal assumption was updated from Table T-2, Actuary's Pension Handbook, to Table T-1, Actuary's Pension Handbook; and the assumed coverage level for future retirees was changed from 20% individual, 80% husband/wife to 40% individual, and 60% husband/wife with the spouse age difference increased from 2 years to 3 years.

SUPPLEMENTARY INFORMATION

BUTLER AREA SEWER AUTHORITY

COMBINING STATEMENT OF NET POSITION

JULY 31, 2021

	Revenue Fund	Debt Service Fund	Debt Service Reserve Fund	Capital Improvement and Redemption Fund	Bond Redemption and Improvement Fund	Construction Fund	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 5,263,071	\$ -	\$ -	\$ 4,419,116	\$ -	\$ -	\$ 9,682,187
Investments:							
Trusteed accounts	-	549	2,336,711	-	5,153,395	-	7,490,655
Other	-	-	-	-	-	-	-
Accounts receivable	2,139,656	-	-	-	-	-	2,139,656
Unbilled sewer receivable	944,700	-	-	-	-	-	944,700
Total current assets	8,347,427	549	2,336,711	4,419,116	5,153,395	-	20,257,198
Non-current assets:							
Capital assets, not being depreciated	1,181,850	-	-	-	-	-	1,181,850
Capital assets, net of accumulated depreciation	59,258,482	-	-	-	-	-	59,258,482
Total capital assets	60,440,332	-	-	-	-	-	60,440,332
Total non-current assets	60,440,332	-	-	-	-	-	60,440,332
Total Assets	68,787,759	549	2,336,711	4,419,116	5,153,395	-	80,697,530
Deferred Outflows of Resources							
Deferred charge on refunding	954,774	-	-	-	-	-	954,774
Liabilities							
Current liabilities:							
Vouchers payable	178,832	-	-	-	-	-	178,832
Accrued expenses	955,663	-	-	-	-	-	955,663
Current maturities of bonds payable	1,760,000	-	-	-	-	-	1,760,000
Current portion of notes payable	635,854	-	-	-	-	-	635,854
Total current liabilities	3,530,349	-	-	-	-	-	3,530,349
Non-current liabilities:							
Bonds payable, net of unamortized discount and premium	33,520,787	-	-	-	-	-	33,520,787
Notes payable	7,178,238	-	-	-	-	-	7,178,238
OPEB liability	4,264,068	-	-	-	-	-	4,264,068
Total non-current liabilities	44,963,093	-	-	-	-	-	44,963,093
Total Liabilities	48,493,442	-	-	-	-	-	48,493,442
Deferred Inflows of Resources							
Deferred inflows of resources for OPEB	411,269	-	-	-	-	-	411,269
Net Position							
Net investment in capital assets	18,300,227	-	-	-	-	-	18,300,227
Restricted	-	549	2,336,711	-	5,153,395	-	7,490,655
Unrestricted	2,537,595	-	-	4,419,116	-	-	6,956,711
Total Net Position	\$ 20,837,822	\$ 549	\$ 2,336,711	\$ 4,419,116	\$ 5,153,395	\$ -	\$ 32,747,593

BUTLER AREA SEWER AUTHORITY

COMBINING STATEMENT OF NET POSITION

JULY 31, 2020

Assets	Revenue Fund	Debt Service Fund	Debt Service Reserve Fund	Capital Improvement and Redemption Fund	Bond Redemption and Improvement Fund	Construction Fund	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 3,093,206	\$ -	\$ -	\$ 4,066,841	\$ -	\$ -	\$ 7,160,047
Investments:							
Trusteed accounts	-	256	2,335,731	-	3,872,629	346,715	6,555,331
Other	2,205,000	-	-	494,000	-	-	2,699,000
Accounts receivable	2,093,796	-	-	-	-	-	2,093,796
Unbilled sewer receivable	906,400	-	-	-	-	-	906,400
Total current assets	8,298,402	256	2,335,731	4,560,841	3,872,629	346,715	19,414,574
Non-current assets:							
Capital assets not being depreciated	1,031,065	-	-	-	-	-	1,031,065
Capital assets, net of accumulated depreciation	62,139,662	-	-	-	-	-	62,139,662
Total capital assets	63,170,727	-	-	-	-	-	63,170,727
Total non-current assets	63,170,727	-	-	-	-	-	63,170,727
Total Assets	71,469,129	256	2,335,731	4,560,841	3,872,629	346,715	82,585,301
Deferred Outflows of Resources							
Deferred charge on refunding	1,047,903	-	-	-	-	-	1,047,903
Liabilities							
Current liabilities:							
Vouchers payable	73,500	-	-	-	-	-	73,500
Accrued expenses	931,434	-	-	-	-	-	931,434
Current maturities of bonds payable	1,805,000	-	-	-	-	-	1,805,000
Current portion of notes payable	624,201	-	-	-	-	-	624,201
Total current liabilities	3,434,135	-	-	-	-	-	3,434,135
Non-current liabilities:							
Bonds payable, net of unamortized discount and premium	34,688,602	-	-	-	-	-	34,688,602
Notes payable	7,814,092	-	-	-	-	-	7,814,092
OPEB liability	4,169,524	-	-	-	-	-	4,169,524
Total non-current liabilities	46,672,218	-	-	-	-	-	46,672,218
Total Liabilities	50,106,353	-	-	-	-	-	50,106,353
Deferred Inflows of Resources							
Deferred inflows of resources for OPEB	514,086	-	-	-	-	-	514,086
Net Position							
Net investment in capital assets	19,633,450	-	-	-	-	-	19,633,450
Restricted	(346,715)	256	2,335,731	-	3,872,629	346,715	6,208,616
Unrestricted	2,609,858	-	-	4,560,841	-	-	7,170,699
Total Net Position	\$ 21,896,593	\$ 256	\$ 2,335,731	\$ 4,560,841	\$ 3,872,629	\$ 346,715	\$ 33,012,765

BUTLER AREA SEWER AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

YEAR ENDED JULY 31, 2021

	Revenue Fund	Debt Service Fund	Debt Service Reserve Fund	Capital Improvement and Redemption Fund	Bond Redemption and Improvement Fund	Construction Fund	Total
Operating Revenues:							
Sewer charges - non-industrial waste	\$ 10,352,097	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,352,097
Sewer charges - industrial waste	340,654	-	-	-	-	-	340,654
Other operating fees and charges	144,273	-	-	-	-	-	144,273
Total operating revenues	10,837,024	-	-	-	-	-	10,837,024
Operating Expenses:							
Operations and maintenance	5,026,355	-	-	-	-	-	5,026,355
Administration	1,113,770	-	-	-	-	-	1,113,770
Depreciation	3,685,849	-	-	-	-	-	3,685,849
Total operating expenses	9,825,974	-	-	-	-	-	9,825,974
Operating Income (Loss)	1,011,050	-	-	-	-	-	1,011,050
Non-Operating Revenues (Expenses):							
Interest income	188,700	1,000	980	3,667	1,582	120	196,049
Interest expense	(1,251,394)	-	-	-	-	-	(1,251,394)
Bond issuance costs	(423,655)	-	-	-	-	-	(423,655)
Loss on disposal of capital assets	(3,275)	-	-	-	-	-	(3,275)
Amortization	74,282	-	-	-	-	-	74,282
Total non-operating revenues (expenses)	(1,415,342)	1,000	980	3,667	1,582	120	(1,407,993)
Income (Loss) Before Capital Contributions and Transfers	(404,292)	1,000	980	3,667	1,582	120	(396,943)
Capital Contributions:							
Tap-in fees	131,771	-	-	-	-	-	131,771
Total capital contributions	131,771	-	-	-	-	-	131,771
Net Income (Loss) Before Transfers	(272,521)	1,000	980	3,667	1,582	120	(265,172)
Transfers:							
Transfers in from:							
Revenue Fund	-	2,603,406	-	-	1,279,184	-	3,882,590
Debt Service Fund	2,604,113	-	-	-	-	-	2,604,113
Capital Improvement and Redemption Fund	492,227	-	-	-	-	-	492,227
Construction Fund	-	-	-	346,835	-	-	346,835
Transfers out to:							
Revenue Fund	-	(2,604,113)	-	(492,227)	-	-	(3,096,340)
Debt Service Fund	(2,603,406)	-	-	-	-	-	(2,603,406)
Capital Improvement and Redemption Fund	-	-	-	-	-	(346,835)	(346,835)
Bond Redemption and Improvement Fund	(1,279,184)	-	-	-	-	-	(1,279,184)
Net Income (Loss)	(1,058,771)	293	980	(141,725)	1,280,766	(346,715)	(265,172)
Net Position:							
Beginning of year	21,896,593	256	2,335,731	4,560,841	3,872,629	346,715	33,012,765
End of year	\$ 20,837,822	\$ 549	\$ 2,336,711	\$ 4,419,116	\$ 5,153,395	\$ -	\$ 32,747,593

BUTLER AREA SEWER AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

YEAR ENDED JULY 31, 2020

	Revenue Fund	Debt Service Fund	Debt Service Reserve Fund	Capital Improvement and Redemption Fund	Bond Redemption and Improvement Fund	Construction Fund	Total
Operating Revenues:							
Sewer charges - non-industrial waste	\$ 10,069,349	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,069,349
Sewer charges - industrial waste	304,051	-	-	-	-	-	304,051
Other operating fees and charges	203,150	-	-	-	-	-	203,150
Total operating revenues	10,576,550	-	-	-	-	-	10,576,550
Operating Expenses:							
Operations and maintenance	5,372,404	-	-	-	-	-	5,372,404
Administration	1,105,996	-	-	-	-	-	1,105,996
Depreciation	3,695,178	-	-	-	-	-	3,695,178
Total operating expenses	10,173,578	-	-	-	-	-	10,173,578
Operating Income (Loss)	402,972	-	-	-	-	-	402,972
Non-Operating Revenues (Expenses):							
Interest income	192,648	2,961	29,030	6,330	42,933	7,263	281,165
Interest expense	(1,252,308)	-	-	-	-	-	(1,252,308)
Bond issuance costs	(244,628)	-	-	-	-	-	(244,628)
Loss on disposal of capital assets	(3,292)	-	-	-	-	-	(3,292)
Amortization	73	-	-	-	-	-	73
Total non-operating revenues (expenses)	(1,307,507)	2,961	29,030	6,330	42,933	7,263	(1,218,990)
Income (Loss) Before Capital Contributions and Transfers	(904,535)	2,961	29,030	6,330	42,933	7,263	(816,018)
Capital Contributions:							
Tap-in fees	86,346	-	-	-	-	-	86,346
Total capital contributions	86,346	-	-	-	-	-	86,346
Net Income (Loss) Before Transfers	(818,189)	2,961	29,030	6,330	42,933	7,263	(729,672)
Transfers:							
Transfers in from:							
Revenue Fund	-	2,705,693	-	-	561,988	-	3,267,681
Debt Service Fund	2,716,034	-	-	-	-	-	2,716,034
Capital Improvement and Redemption Fund	578,260	-	-	-	-	-	578,260
Construction Fund	-	-	-	409,150	-	-	409,150
Transfers out to:							
Revenue Fund	-	(2,716,034)	-	(578,260)	-	-	(3,294,294)
Debt Service Fund	(2,705,693)	-	-	-	-	-	(2,705,693)
Capital Improvement and Redemption Fund	-	-	-	-	-	(409,150)	(409,150)
Bond Redemption and Improvement Fund	(561,988)	-	-	-	-	-	(561,988)
Net Income (Loss)	(791,576)	(7,380)	29,030	(162,780)	604,921	(401,887)	(729,672)
Net Position:							
Beginning of year	22,688,169	7,636	2,306,701	4,723,621	3,267,708	748,602	33,742,437
End of year	\$ 21,896,593	\$ 256	\$ 2,335,731	\$ 4,560,841	\$ 3,872,629	\$ 346,715	\$ 33,012,765

Butler Area Sewer Authority

Financial Statements and
Required Supplementary and
Supplementary Information

Years Ended July 31, 2022 and 2021
with Independent Auditor's Report

MaherDuessel

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BUTLER AREA SEWER AUTHORITY

YEARS ENDED JULY 31, 2022 AND 2021

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Independent Auditor's Report

Butler Area Sewer Authority Board

Butler Area Sewer Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Butler Area Sewer Authority (Authority), as of and for the years ended July 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of July 31, 2022 and 2021, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part

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

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maker Duessel

Pittsburgh, Pennsylvania
October 31, 2022

BUTLER AREA SEWER AUTHORITY**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the financial report presents the Management's Discussion and Analysis (MD&A) of the Butler Area Sewer Authority's (Authority) financial condition and performance for the fiscal year ending July 31, 2022 in compliance with Statement No. 34 of the Governmental Accounting Standards Board (GASB). This analysis is intended to be read and used in conjunction with the included Financial Statements

FINANCIAL HIGHLIGHTS

The following are key financial highlights during the fiscal year ended July 31, 2022:

- During the year, the Authority entered into a confidentiality agreement with Pennsylvania American Water (PAW) to consider the possible sale of the Authority assets. Subsequent to year end, on September 13, 2022 the Authority Board announced that PAW formally presented the Authority with an offer to acquire the wastewater system for \$231.5 million dollars. Open houses with representatives from the Authority, City of Butler, Butler Township and PAW were scheduled in September to hear public comment and answer questions regarding the potential sale. Letters were also mailed to Authority customers. At the Authority's October 11, 2022 meeting the Board voted unanimously to approve and executed the Asset Purchase Agreement (APA) with PAW. The City of Butler and Butler Township voted upon and passed resolutions to support the sale at their meetings on October 13, 2022 and October 17, 2022, respectively. PAW will initiate a formal application to the Pennsylvania Public Utility Commission (PUC). The process to secure PUC approval can take anywhere from nine months to one year. Additional and developing information is available at resources4basacustomers.org a link can also be found at our website at basapa.org.
- The Authority experienced a Net Gain or an increase in Net Position of \$677,628 (2.1%) in the fiscal year ended July 31, 2022. The gain was driven by an increase in tap-in fees and non-industrial waste sewer charges as well as the elimination of bond issuance costs for the fiscal year ended July 31, 2022.
- Effective July 1, 2022, a rate increase of \$5.00 per month per equivalent dwelling unit (EDU) went into effect. The effect of this increase will not be seen in the financial statements until the 2022-2023 fiscal year. This results in the base quarterly rate for a single EDU to increase from \$114 to \$129, or approximately 13%. The last rate increase of \$2.00, or 5.6%, per month per equivalent dwelling unit (EDU), went into effect on January 1, 2020.
- The Authority proposed a Corrective Action Plan (CAP) which was approved by the Pennsylvania Department of Environmental Protection (DEP) on March 26, 2019, with subsequent revisions known as "RCAP" and "R2CAP" approved on February 22, 2021 and June 2, 2022, respectively, collectively known as the CAP. The CAP addresses wet weather hydraulic overloading of two pump station systems, the *Fisher Heights, Brewster, and Brewster Booster Pump Station System (FBB) as well as the Greenwood, Benbrook, and Bryson Pump Station System (GBB)* within the service area. The CAP outlines steps necessary for the Authority to collect and analyze data as well as propose, design, and construct any necessary improvements within the designated area of the sewer collection system in accordance with the proposed timeline. Construction for FBB

and GBB is to be completed by May 2025 and August 2026, respectively, at an estimated cost of \$12 million dollars. The final cost is unknown as this estimate may vary significantly due to inflation and current market conditions. The type and timing of financing, if any, is highly dependent on the outcome of the potential sale of the Authority's assets described in the first bullet point above.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Authority are compiled using the Enterprise Fund method of accounting because the operations are financed and operated in a manner similar to private sector businesses, where the costs of providing services to the general public on a continuing basis are intended to be financed or recovered through user charges or sewer service fees. The Authority uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when the liability is incurred. The financial statements offer short-term and long-term financial information about the Authority's activities.

The Statement of Net Position summarizes the Authority's assets, liabilities, and deferred outflows and inflows of resources and provides information about the nature and amounts of investments in resources or assets and the offsetting obligations or liabilities to Authority creditors. The overall financial condition of the Authority is reflected in this statement.

The Statement of Revenues, Expenses, and Changes in Net Position summarizes the revenues and expenses. This statement measures the success of the Authority's operations over the past fiscal year and can be used to determine whether the Authority has successfully recovered all its costs through its sewage disposal rates and other fees.

The third required financial statement is the Statement of Cash Flows. This statement provides information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash flows from operating activities, capital, and related financing activities, and investing activities, as well as net changes in cash during the reporting period.

The Notes to Financial Statements (Notes) provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information on the Authority's accounting policies, the basis of accounting, deposits and investments, capital assets, outstanding debt, pensions, other postemployment benefits (OPEBs) and other significant activities, such as material risks, obligations, commitments, contingencies, subsequent events, and future requirements, as applicable to the Authority.

FINANCIAL ANALYSIS

The following comparative condensed financial statements provide a comparison of key financial data and indicators for management for monitoring and planning purposes.

Table 1 presents a condensed summary of the Authority's Statements of Net Position:

Table 1
Condensed Statements of Net Position

	Balance at July 31, 2022	Balance at July 31, 2021	Net Change
Assets:			
Current Assets	\$ 20,448,696	\$ 20,257,198	\$ 191,498
Capital Assets	58,390,335	60,440,332	(2,049,997)
Total Assets	78,839,031	80,697,530	(1,858,499)
Deferred Outflows of Resources:			
Deferred charge on refunding	861,645	954,774	(93,129)
Total Deferred Outflows of Resources	861,645	954,774	(93,129)
Liabilities and Net Position:			
Current Liabilities	3,570,846	3,530,349	40,497
Non-Current Liabilities	42,001,068	44,963,093	(2,962,025)
Total Liabilities	45,571,914	48,493,442	(2,921,528)
Deferred Outflows of Resources:			
Deferred inflows of resources for OPEB	703,541	411,269	292,272
Total Deferred Inflows of Resources	703,541	411,269	292,272
Total Net Position	\$ 33,425,221	\$ 32,747,593	\$ 677,628

Assets and Deferred Outflows of Resources

The Authority's Current Assets increased by \$191,498 (.9%) during the period. There were net increases to investments in trusteed accounts (\$192,688), accounts receivable (\$109,432), and unbilled sewer receivable (\$102,400) as well as a decrease to cash and cash equivalents (\$213,022). Due to the coronavirus, its economic impact, restrictions placed on collection efforts, and the natural course of delinquency with each new billing cycle, the accounts receivable balance increased slightly from the prior year. Finally, an increase in unbilled sewer receivables was due to the increase in sewer rates of \$5 per month per EDU, effective July 1, 2022.

Capital Assets decreased by \$2,049,997 (3.4%). Although the Authority had additions to capital assets during the year, the amount of depreciation for the period of \$3,725,042 far exceeded the capital asset additions and therefore resulted in a decrease in Capital Assets for the period. Additional information can be reviewed in the Capital Improvements section of the MD&A and in the Notes to the Financial Statements.

Overall, total assets decreased by \$1,858,499 (2.3%).

The Deferred Charge on Refunding was established from the 2013 and 2015 Sewer Revenue Bonds, that were issued to advance refund a portion of the 2010 Bond issue. The deferred charge is amortized over the shorter of the life of the new or original bonds. Additional information can be reviewed in the Debt section of the MD&A, as well as in the Notes to Financial Statements.

Liabilities, Deferred Inflows of Resources, and Net Position

The Authority had an increase in Current Liabilities as of July 31, 2022 of \$40,497 (1.1%). This was due primarily to an increase in vouchers payable (\$137,253) offset by a decrease in accrued expenses (\$173,626). Vouchers payable and accrued expenses fluctuate from year to year based on the timing of purchases, the need for materials/supplies, and due to the pricing and quantity of construction projects underway at year-end. Additional information on capital projects can be seen in the Capital Improvements section of the MD&A below. The increase (\$65,000) in current maturities of bonds payable is based on the amortization schedules of each respective bond issue, such payments of principal debt service naturally fluctuate from year to year. Additional information on debt is available in the Debt section of the MD&A and in the Notes to the Financial Statements.

Non-Current Liabilities had a net decrease of \$2,962,025 (6.6%). The Authority continued to make required debt service payments on both bonds and notes over the period. More discussion can be reviewed in the Debt section of the MD&A or the Notes to Financial Statements. In addition, the OPEB liability decreased by \$415,019 from the prior period. More discussion can be reviewed in the Postemployment Benefits Other Than Pension Benefits (OPEBs) section of the Notes to Financial Statements.

Overall, Total Liabilities decreased by \$2,921,528 (6.0%).

Table 2 presents a condensed summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position:

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

	Year Ended July 31, 2022	Year Ended July 31, 2021	Net Change
Revenues:			
Sewer Charges	\$ 10,890,555	\$ 10,692,751	\$ 197,804
Other Operating Fees and Charges	260,786	144,273	116,513
Non-Operating Revenues	288,162	270,331	17,831
Total Revenues	<u>11,439,503</u>	<u>11,107,355</u>	<u>332,148</u>
Expenses:			
Operating Expenses, Net of Depreciation	6,250,851	6,140,125	110,726
Depreciation	3,725,042	3,685,849	39,193
Non-Operating Expenses	1,081,722	1,678,324	(596,602)
Total Expenses	<u>11,057,615</u>	<u>11,504,298</u>	<u>(446,683)</u>
Capital Contributions:			
Tap-In Fees	295,740	131,771	163,969
Total Capital Contributions	<u>295,740</u>	<u>131,771</u>	<u>163,969</u>
Net Income (Loss)	677,628	(265,172)	942,800
Net Position:			
Beginning of Year	<u>32,747,593</u>	<u>33,012,765</u>	<u>(265,172)</u>
End of Year	<u>\$ 33,425,221</u>	<u>\$ 32,747,593</u>	<u>\$ 677,628</u>

Revenues

Total Revenues increased from the prior year amount by \$332,148 (3.0%). Sewer charges increased during the period by \$197,804 (1.8%). Although the large majority of the Authority's customer base is billed on a flat rate, many customers are billed based on the amount of water usage which can vary from period to period. Residential properties are billed on a flat rate, whereas commercial and industrial waste users are billed on consumption. Each EDU that is billed is equivalent to 4,000 gallons of water consumed per month.

Other operating fees and charges increased by \$116,513 (80.8%). During the year ended July 31, 2022, the Authority placed several surplus assets for sale through an opened public auction process increasing the miscellaneous revenues line item. Such sales were not necessary for the year ended July 31, 2021 and therefore miscellaneous revenues increased.

Expenses

Total Expenses decreased by \$446,683 (3.9%). Operating Expenses, Net of Depreciation increased by \$110,726 (1.8%). During the year ended July 31, 2022 Operating Expenses, Net of Depreciation increased due to the following reasons: (1) legal fees primarily associated with the consideration of a sale of Authority assets to PAW increased by \$200,744 from the prior year, (2) major non capital purchases increased by \$117,284, (3) salaries and wages for Authority employees reduced by \$153,759

as employees resigned or retired and many were not replaced, (4) employee benefit costs decreased by \$140,158, most of which was attributed to reductions in OPEBs (\$126,580) expenses, and (5) normal fluctuations in various operating from year to year during the natural course of business. More discussion regarding OPEBs can be reviewed in the Postemployment Benefits Other Than Pension Benefits (OPEBs) section of the Notes to Financial Statements.

Depreciation expense increased by \$39,193 (1.1%) during the year ended July 31, 2022. The change in depreciation is minimal in the current year, reflecting capital additions as well as reductions in depreciation expenses for assets that became fully depreciated or removed from service during the period.

Non-Operating Expenses decreased by \$596,602 (35.5%). During the prior year, the Authority refinanced both the 2015 and 2016 Bonds, with the 2020A and 2021 Bonds, respectively, resulting in bond issuance costs of \$423,655, no such costs were incurred during the year ending July 31, 2022. As no additional debt was obtained and as the Authority continued to pay debt service during the period less interest expense \$169,672 was incurred during the current year. Additional information on debt is available in the Debt section of the MD&A and in the Notes to the Financial Statements.

Capital Contributions

Total Capital Contributions increased by \$163,969 (55.4%). The demand for access to the sewer system increased during the year resulting in more Tap-In Fees. There was no Developer Contribution Revenue. Revenues generated from Tap-In Fees and Developer Contribution Revenue directly correlate to area development and can fluctuate greatly from fiscal year to fiscal year based on need and timing.

Net Income (Loss)

During the fiscal year ended July 31, 2022, the Authority experienced a Net Gain of \$677,628, compared to the July 31, 2021 Net Loss of \$265,172.

CAPITAL IMPROVEMENTS

During the fiscal year, the Authority continued its ongoing capital improvement expenditures for rehabilitation and evaluation of the sewer system and upgrades to the wastewater treatment facility.

Capital projects and purchases made during the fiscal year included: wastewater treatment plant (WWTP) SCADA phase II (\$257,298), WWTP slide gate (\$21,432), WWTP chlorine pump (\$41,182), WWTP automatic chlorine feed equipment (\$23,370), WWTP primary clarifiers (\$23,814), Center Avenue Pump Station pumps and valves project (\$49,507), new vector truck (\$482,385), and a Ford F-350 pickup truck (\$51,658). There were no Developer Contributions for sewer extensions accepted by the Authority during the year.

The Authority maintains Construction in Progress projects as of July 31, 2022 that includes the following projects: (1) *Rocklick Pump Station Replacement Project* design and permitting phase, (2) *WWTP Sludge Thickener Upgrade Project* construction phase, (3) *CAP Project* design phase, (4) *Alameda Park Sewer Upsizing Project* design phase, (5) *Chlorine Tank Improvements*, and (6) *SCADA Phase III*.

Depreciation expense increased by \$39,193 (1.1%) during the year ended July 31, 2022.

DEBT

During 2015, the Authority issued \$9,965,000 in Sewer Revenue Bonds, to advance refund a portion (\$9,345,000) of the 2010 Bond issue. Proceeds of this issue were used to pay for the costs of the issue and establish an escrow account to partially defease the 2010 Bond debt. The Authority also received savings of approximately \$1,354,000 as a result of reduced debt service payments compared to the 2010 Bond issue debt service schedule. At the end of the fiscal year, and after the 2020A Series current refunding of the debt, as described below and in the Notes, this loan was paid-in-full during the year ended July 31, 2021.

In February 2016, the Authority issued new Sewer Revenue Bonds in the amount of \$9,895,000. Proceeds from this obligation were used to fund additional contributions to the Debt Service Reserve Fund, pay for costs of the bond issuance, and to provide funding for the various capital projects of the Authority, including the *Negley Avenue Pump Station Replacement Project*, *WWTP Headworks Improvements*, and *WWTP Sludge Dewatering Improvements*. At the end of the fiscal year, and after the 2021 Series current refunding of the debt, as described below and in the Notes, this loan was paid-in-full during the year ended July 31, 2021.

In October 2017, the Authority issued new Sewer Revenue Bonds (Series A and B) in the total amount of \$11,320,000. Proceeds from this obligation were used to pay for costs of the bond issuance, purchase a surety policy for deposit to the Debt Service Reserve Fund, and to refund various PennVest loans of the Authority. At the end of the fiscal year, the Authority had outstanding bond debt for Series A of \$7,490,000. Principal and interest payments will vary from year-to-year with the final payment due in 2032. The Series B Bonds matured in 2019 and are paid in full.

In 2020, the Authority issued new Sewer Revenue Bonds in the amount of \$9,910,000. Proceeds from this obligation were used to pay for costs of the bond issuance and current refund the 2013 Bonds in the amount of \$9,695,000. At the end of the fiscal year, the Authority had outstanding bond debt for this issue of \$9,645,000. Principal and interest payments will vary from year-to-year with the final payment due in 2034.

In October of 2020, the Authority issued new Sewer Revenue Bonds in the amount of \$8,510,000. Proceeds from this obligation were used to pay for costs of the bond issuance and current refund the 2015 Bonds in the amount of \$8,800,000. At the end of the fiscal year, the Authority had outstanding bond debt for this issue of \$7,445,000. Principal and interest payments will vary from year-to-year with the final payment due in 2031.

In April 2021, the Authority issued new Sewer Revenue Bonds in the amount of \$8,315,000. Proceeds from this obligation were used to pay for costs of the bond issuance and current refund the 2016 Bonds in the amount of \$8,665,000. At the end of the fiscal year, the Authority had outstanding bond debt for this issue of \$7,970,000. Principal and interest payments will vary from year-to-year with the final payment due in 2041.

In February 2011, the Authority closed on a loan from PennVest in the amounts of \$13,087,500 to partially fund the *Butler City Act 537 Wet Weather Flow Equalization Tanks, Diversion Structures, and Pumping Station Facilities Projects* required by the Consent Order and Agreement (CO&A), respectively. The Authority completed the projects during the fiscal year ended July 31, 2014. Amortization payments of principal and interest continued during the fiscal year, leaving an outstanding balance as of July 31, 2022 of \$7,178,238 on the remaining loan. The final payment on this loan is scheduled for January 2032.

More detailed information about the Authority's long-term debt is presented in the Notes to Financial Statements.

CONDITIONS AFFECTING FUTURE FINANCIAL POSITION

Asset Purchase Agreement and Pending Sale of Authority Assets, Subject to PUC Approval

During the year, the Authority entered into a confidentiality agreement with Pennsylvania American Water (PAW) to consider the possible sale of the Authority assets. Subsequent to year end, on September 13, 2022 the Authority Board announced that PAW formally presented the Authority with an offer to acquire the wastewater system for \$231.5 million dollars. Open houses with representatives from the Authority, City of Butler, Butler Township and PAW were scheduled in September to hear public comment and answer questions regarding the potential sale. Letters were also mailed to Authority customers. At the Authority's October 11, 2022 meeting the Board voted unanimously to approve and executed the Asset Purchase Agreement (APA) with PAW. The City of Butler and Butler Township voted upon and passed resolutions to support the sale at their meetings on October 13, 2022 and October 17, 2022, respectively. PAW will initiate a formal application to the Pennsylvania Public Utility Commission (PUC). The process to secure PUC approval can take anywhere from nine months to one year. Additional and developing information is available at resources4basacustomers.org a link can also be found at our website at basapa.org.

DEP Chapter 94 Corrective Action Plan to Address Pump Station Overflows

At the request of the Authority, a meeting of Authority representatives and representatives from the Pennsylvania Department of Environmental Protection (DEP) was held on November 14, 2018. The purpose of the meeting was to discuss recurring wet weather sanitary sewer overflows (SSOs) during the 2018 record rainfall year associated with several of BASA's sewage pump stations and the corrective actions necessary to reduce the overloaded conditions and/or to provide the additional capacities, if necessary, to address the hydraulic overload conditions and eliminate these SSOs.

In response to this meeting, the Authority prepared and submitted a Corrective Action Plan (CAP) to address wet weather hydraulic overloading of specific pump stations within the Authority's sewer system. The CAP primarily focuses on three pump stations that have experienced recurring wet weather SSO events during 2018: the Fisher Heights Pump Station, the Brewster Booster Pump Station, and the Bryson Pump Station. The Fisher Heights Pump Station is not significantly affected by pumped flows from any upstream pump station. However, the Brewster Booster and Bryson Pump Stations are significantly affected hydraulically by pumped flows from other upstream pump stations. Therefore, the CAP had to consider the hydraulic interconnection of the upstream pump stations when identifying the cause of the SSOs and assessing corrective actions and any capital improvements to these two pump stations.

The CAP was subdivided into separate sections to address the following pump stations and pump station systems (listed by the pump station flow sequence):

1. The Fisher Heights, Brewster, and Brewster Booster Pump Station System (FBB); and
2. The Greenwood, Benbrook, and Bryson Pump Station System (GBB).

Although many of the CAP tasks are similar for each of these systems, the tasks were outlined for each specific system for scheduling and progress reporting purposes.

The DEP reviewed the Authority's draft CAP and requested a few minor revisions. The modified CAP dated March 11, 2019 was formally approved by the DEP in a letter dated March 26, 2019. Subsequent revisions known as "RCAP" and "R2CAP" were approved on February 22, 2021 and June 2, 2022, respectively, and served to extend completion dates on various action items within the CAP.

In August 2019, the Authority hired Herbert Rowland and Grubic, Inc. (HRG) to provide engineering services to assist the Authority in completing the pump station assessments and preliminary design evaluation of alternative solutions for the approved CAP. This assessment was completed during the fourth quarter of 2020. HRG has since been contracted to proceed with FBB and GBB design evaluation (phase 01 & 02) and sewage facilities planning (phase 03) which have been completed, as well as design (phase 04) and permitting (phase 05) at a cost not to exceed \$735,400. The original estimated total cost of the combined FBB and GBB projects was \$12,000,000, however we believe this price will increase given the recent high inflation and market conditions including supply chain issues. We have not yet received an opinion of probable cost from HRG. The FBB and GBB project completion dates are May 2025 and August 2026, respectively. As of July 31, 2021, the Authority has successfully complied with the CAP tasks and implementation schedule and has also continued to provide quarterly progress reports to the DEP in a timely manner. The Authority continues to consult with our financial advisor as to the type and timing of financing, if any, as it is highly dependent on the outcome of the potential sale of the Authority's assets described above.

Capital Improvements

The Authority continues to focus on capital improvement projects to address aging equipment and infrastructure in fiscally responsible ways to fund those projects while keeping our customers and the rate schedule in mind. The Authority evaluates capital projects on an ongoing basis by using input from the management team to establish priorities as well as the budget process and the Consulting Engineer's Annual Report as tools to assist in this on-going valuation.

CONTACTING THE AUTHORITY

If you have any questions about this report or need additional financial information, contact the Butler Area Sewer Authority's Finance Director or Executive Director at 100 Litman Road, Butler, PA 16001-3256.

BUTLER AREA SEWER AUTHORITY

STATEMENTS OF NET POSITION

JULY 31, 2022 AND 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,469,165	\$ 9,682,187
Investments:		
Trusteed accounts	7,683,343	7,490,655
Accounts receivable	2,249,088	2,139,656
Unbilled sewer receivable	1,047,100	944,700
Total current assets	<u>20,448,696</u>	<u>20,257,198</u>
Non-current assets:		
Capital assets, not being depreciated	1,798,610	1,181,850
Capital assets, net of accumulated depreciation	56,591,725	59,258,482
Total capital assets	<u>58,390,335</u>	<u>60,440,332</u>
Total non-current assets	<u>58,390,335</u>	<u>60,440,332</u>
Total Assets	<u>78,839,031</u>	<u>80,697,530</u>
Deferred Outflows of Resources		
Deferred charge on refunding	861,645	954,774
Liabilities		
Current liabilities:		
Vouchers payable	316,085	178,832
Accrued expenses	782,037	955,663
Current maturities of bonds payable	1,825,000	1,760,000
Current portion of notes payable	647,724	635,854
Total current liabilities	<u>3,570,846</u>	<u>3,530,349</u>
Non-current liabilities:		
Bonds payable, net of unamortized discount and premium	31,621,505	33,520,787
Notes payable	6,530,514	7,178,238
OPEB liability	3,849,049	4,264,068
Total non-current liabilities	<u>42,001,068</u>	<u>44,963,093</u>
Total Liabilities	<u>45,571,914</u>	<u>48,493,442</u>
Deferred Inflows of Resources		
Deferred inflows of resources for OPEB	703,541	411,269
Net Position		
Net investment in capital assets	18,627,237	18,300,227
Restricted	7,683,343	7,490,655
Unrestricted	7,114,641	6,956,711
Total Net Position	<u>\$ 33,425,221</u>	<u>\$ 32,747,593</u>

See accompanying notes to financial statements.

BUTLER AREA SEWER AUTHORITYSTATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

YEARS ENDED JULY 31, 2022 AND 2021

	2022	2021
Operating Revenues:		
Sewer charges - non-industrial waste	\$ 10,561,806	\$ 10,352,097
Sewer charges - industrial waste	328,749	340,654
Other operating fees and charges	260,786	144,273
Total operating revenues	<u>11,151,341</u>	<u>10,837,024</u>
Operating Expenses:		
Operations and maintenance	5,330,364	5,026,355
Administration	920,487	1,113,770
Depreciation	3,725,042	3,685,849
Total operating expenses	<u>9,975,893</u>	<u>9,825,974</u>
Operating Income (Loss)	<u>1,175,448</u>	<u>1,011,050</u>
Non-Operating Revenues (Expenses):		
Interest income	213,880	196,049
Interest expense	(1,081,722)	(1,251,394)
Bond issuance costs	-	(423,655)
Loss on disposal of capital assets	-	(3,275)
Amortization	74,282	74,282
Total non-operating revenues (expenses)	<u>(793,560)</u>	<u>(1,407,993)</u>
Income (Loss) Before Capital Contributions	<u>381,888</u>	<u>(396,943)</u>
Capital Contributions:		
Tap-in fees	295,740	131,771
Total capital contributions	<u>295,740</u>	<u>131,771</u>
Net Income (Loss)	<u>677,628</u>	<u>(265,172)</u>
Net Position:		
Beginning of year	<u>32,747,593</u>	<u>33,012,765</u>
End of year	<u>\$ 33,425,221</u>	<u>\$ 32,747,593</u>

See accompanying notes to financial statements.

BUTLER AREA SEWER AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED JULY 31, 2022 AND 2021

	2022	2021
Cash Flows From Operating Activities:		
Sewer charges and fees	\$ 10,939,509	\$ 10,752,864
Operations and maintenance	(5,489,484)	(4,905,067)
Administrative expenses	(920,487)	(1,113,770)
Net cash provided by (used in) operating activities	<u>4,529,538</u>	<u>4,734,027</u>
Cash Flows From Capital and Related Financing Activities:		
Tap-in fees	295,740	131,771
Proceeds from bonds payable	-	16,825,000
Principal paid on capital debt	(2,395,854)	(19,579,201)
Interest paid on capital debt	(988,593)	(590,453)
Payments related to the acquisition, construction, or improvement of capital assets	<u>(1,675,045)</u>	<u>(958,729)</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,763,752)</u>	<u>(4,171,612)</u>
Cash Flows From Investing Activities:		
Interest and dividends	213,880	196,049
Proceeds from sale (purchase) of long-term investments	<u>(192,688)</u>	<u>1,763,676</u>
Net cash provided by (used in) investing activities	<u>21,192</u>	<u>1,959,725</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(213,022)</u>	<u>2,522,140</u>
Cash and Cash Equivalents:		
Beginning of year	<u>9,682,187</u>	<u>7,160,047</u>
End of year	<u>\$ 9,469,165</u>	<u>\$ 9,682,187</u>
Reconciliation of Operating Income (Loss) to Net Cash and Cash Equivalents Provided by (Used in) Operating Activities:		
Operating income (loss)	<u>\$ 1,175,448</u>	<u>\$ 1,011,050</u>
Adjustments to reconcile operating income (loss) to cash and cash equivalents provided by (used in) operating activities:		
Depreciation	3,725,042	3,685,849
Change in assets and liabilities:		
Accounts and unbilled sewer receivables	(211,832)	(84,160)
Vouchers payable and accrued expenses	(36,373)	129,561
OPEB liability	(415,019)	94,544
Deferred inflows of resources - OPEB	<u>292,272</u>	<u>(102,817)</u>
Total adjustments	<u>3,354,090</u>	<u>3,722,977</u>
Net cash provided by (used in) operating activities	<u>\$ 4,529,538</u>	<u>\$ 4,734,027</u>

See accompanying notes to financial statements.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

1. Organization

The Butler Area Sewer Authority (Authority) is a body corporate and politic organized under the Municipality Authorities Act of 1945, P.L. 382 (Act), as amended and supplemented having been duly organized, under said Act by joint action of the City of Butler (City) and the Township of Butler (Township), both of Butler County, Pennsylvania. Its Certificate of Incorporation was issued by the Secretary of the Commonwealth of Pennsylvania on November 13, 1962. On May 6, 1997, the articles of incorporation were amended to extend the existence of the Authority to February 6, 2046.

The Authority provides sanitary sewer collection and treatment for the City of Butler, Township of Butler, Center Township, areas in East Butler Borough, and limited areas of Summit, Connoquenessing, and Oakland Townships.

2. Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting Entity

The report includes all of the services provided by the Authority to residents and businesses within its service area. Authority services provided include operation and maintenance of sewage collection and treatment facilities.

The Board is comprised of five members, with two members appointed by the Township and three appointed by the City. The Authority is not considered a component unit of either the Township or the City. The Authority is not financially accountable to either the Township or the City, nor does the Authority create a financial benefit or burden to either the Township or the City while operating under ordinary conditions. The City appoints a majority of Board members to the Authority, but because the City cannot replace the Board members at will once they have been appointed, they do not exercise control of the Board.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Basis of Accounting

The activities of the Authority are presented as an Enterprise Fund because the operations are financed and managed in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

As an Enterprise Fund, the Authority uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when the liability is incurred.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operation of the Authority. Operating revenues consist primarily of user charges. Non-operating revenues and expenses consist of those revenues and expenses that are related to the financing and investing types of activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Authority's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Estimates

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments, principally money market funds, are carried at fair value.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Accounts Receivable

Accounts receivable consists of unpaid customer sewer billings at July 31, 2022 and 2021. No provision is made for uncollectible accounts, as these charges are lienable charges to the property served.

Unbilled Sewer Receivable

Unbilled sewer receivable represents an estimate of sewer services provided to customers that have not yet been billed.

Capital Assets

Capital assets, which include land, sewer system, pump stations, plant, vehicles, and construction in progress, are recorded at cost. The costs of maintenance and repairs that do not enhance the functionality of the asset or materially extend asset lives are not capitalized. The capitalization threshold is \$5,000 for all new purchases. Depreciation of all capital assets is charged against operations. Depreciation on assets has been provided using the straight-line method over the estimated useful lives, as follows:

Sewer system	5 to 40 years
Pump stations	5 to 40 years
Plant	5 to 40 years
Vehicles	5 years

Compensated Absences

The Authority provides paid vacation, personal, and sick leave benefits to all eligible employees. Vacation days can be accumulated by eligible employees, not to exceed 24 days. Personal days are granted annually to eligible full-time employees; however, they may not be carried over from calendar year to calendar year. Sick leave can be accumulated by employees, not to exceed 130 days. The Authority’s policy at the time of separation of employment is to pay unused vacation, personal, and sick leave at the time of separation. The balance of compensated absences at July 31, 2022 and 2021 was \$671,432 and \$833,345, respectively, and is recorded in accrued expenses on the statements of net position.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Bond Discounts and Bond Premiums

Bond discounts and bond premiums are deferred and amortized over the life of the related bonds using the straight-line method. The unamortized balances of the bond discount and bond premium are recorded as a reduction of the related bond payable. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses.

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statements of net position report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has one item that qualifies for reporting in this category, the deferred charge on refunding. The deferred charge on refunding resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has the following items that qualify for reporting in this category. In conjunction with other post-employment benefits (OPEB) accounting requirements, differences between expected and actual experience, and changes in assumption are recorded as deferred inflows of resources for OPEBs. These amounts are determined based on an actuarial valuation performed for the OPEB Plan. See Note 7 for additional information about the OPEB plan.

Net Position

Accounting standards require the classification of net position into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

- Restricted – This component of net position consists of constraints placed on net position use through external restrictions.
- Unrestricted – This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted.”

Adopted Pronouncements

GASB Statement No. 87, “Leases,” requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The following GASB Statements were also adopted for the year ended July 31, 2022: Statement Nos. 92 (Omnibus 2020), 97 (Deferred Compensation Plans), and 99 (Omnibus 2022 – paragraphs 26 through 32). These Statements had no significant impact on the Authority’s financial statements for the year ended July 31, 2022.

Pending Pronouncements

GASB has issued statements that will become effective in future years including 91 (Conduit Debt Obligations), 94 (Public-Private and Public-Public Partnerships), 96 (Information Technology Arrangements), 99 (Omnibus 2022), 100 (Accounting Changes and Error Corrections), and 101 (Compensated Absences). Management has not yet determined the impact of these statements on the financial statements.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

3. Deposits and Investments

In accordance with the Municipality Authorities Act and Act 10 of the Pennsylvania state legislature, in addition to deposits in institutions insured by the Federal Deposit Insurance Corporation (FDIC), the Authority may invest in any of the following: United States Treasury Bills, short-term obligations of the United States Government or its agencies or instrumentalities, obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States or the Commonwealth of Pennsylvania, commercial paper, bankers' acceptance, and negotiable certificates of deposits. Funds are either maintained in demand deposits or invested with the Pennsylvania Local Government Investment Trust (PLGIT). There were no deposit or investment transactions during the years ended July 31, 2022 and 2021 that were in violation of these policies.

The following is a description of the Authority's deposit and investment risks:

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal deposit policy for custodial credit risk.

As of July 31, 2022, \$5,873,041 of the Authority's bank balance of \$6,123,041 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution. These deposits have carrying amounts of \$6,217,593 as of July 31, 2022 and are reported as cash and cash equivalents in the statements of net position. As of July 31, 2022, \$250,000 of the Authority's deposits was covered by FDIC insurance.

As of July 31, 2021, \$6,198,523 of the Authority's bank balance of \$6,448,523 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution. These deposits have carrying amounts of \$6,437,620 as of July 31, 2021 and are reported as cash and cash equivalents in the statements of net position. As of July 31, 2021, \$250,000 of the Authority's deposits was covered by FDIC insurance.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Cash Equivalent Investments

As of July 31, 2022 and 2021, the entire PLGIT book and bank balance of \$3,251,572 and \$3,244,567, respectively, is considered to be a cash equivalent for presentation on the statements of net position.

The Authority can withdraw funds from the external investment pools. However, there are certain limitations placed on these withdrawals. For PLGIT-Class accounts, there is a one-day holding period. For PLGIT/PRIME accounts, there is a one-day holding period and a penalty for more than two withdrawals in a calendar month. For PLGIT Term accounts, there is a 60-day minimum term and a one-year maximum term. The minimum investment and account balance for PLGIT Term accounts is \$100,000. PLGIT is audited annually by independent auditors. PLGIT uses amortized cost to report net assets to compute share prices. It is PLGIT's policy to maintain a net asset value of \$1 per share. Accordingly, the fair value of the position of PLGIT is the same as the value of PLGIT shares.

The fair value of the Authority's position in the external investment pool is the same as the value of the pool shares. All investments in an external investment pool that is not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania.

Investments

Included on the statements of net position are the following investments held by the Authority at July 31, 2022 and 2021:

Investment Type	2022		2021	
	Fair Value	Maturity in years Less than 1 year	Fair Value	Maturity in years Less than 1 year
Money market funds	\$ 7,683,343	\$ 7,683,343	\$ 7,490,655	\$ 7,490,655
Total Investments	\$ 7,683,343	\$ 7,683,343	\$ 7,490,655	\$ 7,490,655

The fair value of the Authority's investments is the same as their carrying amount.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Authority has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

organizations. As of July 31, 2022 and 2021, investments in PLGIT have received a AAA rating from Standard & Poor's.

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 the investments or collateral securities that are in the possession of the outside entity. The Authority does not have a formal investment policy for custodial credit risk.

Concentration of Credit Risk - The Authority places no limit on the amount the Authority may invest in any one issuer.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Authority's investments. 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. All investments have an average maturity of less than one year.

Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Authority has no assets as of July 31, 2022 and 2021 requiring such valuation.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

4. Capital Assets

A summary of changes in capital assets for the years ended July 31, 2022 and 2021 are as follows:

	Balance at August 1, 2021	Additions/ Transfers	Deletions/ Transfers	Balance at July 31, 2022
Land	\$ 821,425	\$ -	\$ -	\$ 821,425
Construction in progress	360,425	724,357	(107,597)	977,185
Capital assets, not being depreciated	<u>1,181,850</u>	<u>724,357</u>	<u>(107,597)</u>	<u>1,798,610</u>
Vehicles	851,152	534,043	(22,070)	1,363,125
Sewer system	59,588,587	7,242	(302,685)	59,293,144
Pump stations	38,400,149	94,140	(12,960)	38,481,329
Plant	<u>37,194,437</u>	<u>422,860</u>	<u>(62,235)</u>	<u>37,555,062</u>
Capital assets, being depreciated	136,034,325	1,058,285	(399,950)	136,692,660
Less: accumulated depreciation	<u>(76,775,843)</u>	<u>(3,725,042)</u>	<u>399,950</u>	<u>(80,100,935)</u>
Capital assets, net of accumulated depreciation	<u>59,258,482</u>	<u>(2,666,757)</u>	<u>-</u>	<u>56,591,725</u>
Total capital assets, net	<u>\$ 60,440,332</u>	<u>\$ (1,942,400)</u>	<u>\$ (107,597)</u>	<u>\$ 58,390,335</u>
	Balance at August 1, 2020	Additions/ Transfers	Deletions/ Transfers	Balance at July 31, 2021
Land	\$ 821,425	\$ -	\$ -	\$ 821,425
Construction in progress	209,640	150,785	-	360,425
Capital assets, not being depreciated	<u>1,031,065</u>	<u>150,785</u>	<u>-</u>	<u>1,181,850</u>
Vehicles	864,336	34,318	(47,502)	851,152
Sewer system	59,740,751	69,024	(221,188)	59,588,587
Pump stations	38,323,993	76,156	-	38,400,149
Plant	<u>36,584,219</u>	<u>628,446</u>	<u>(18,228)</u>	<u>37,194,437</u>
Capital assets, being depreciated	135,513,299	807,944	(286,918)	136,034,325
Less: accumulated depreciation	<u>(73,373,637)</u>	<u>(3,685,849)</u>	<u>283,643</u>	<u>(76,775,843)</u>
Capital assets, net of accumulated depreciation	<u>62,139,662</u>	<u>(2,877,905)</u>	<u>(3,275)</u>	<u>59,258,482</u>
Total capital assets, net	<u>\$ 63,170,727</u>	<u>\$ (2,727,120)</u>	<u>\$ (3,275)</u>	<u>\$ 60,440,332</u>

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

5. DebtBonds Payable

During October 2015, the Authority issued Sewer Revenue Bonds, Series of 2015 (2015 Bonds), in the amount of \$9,965,000 to advance refund \$9,345,000 of the 2010 Bonds, and pay costs related to the issuance and sale of the bonds. These Bonds were refunded during the year ended July 31, 2021.

During February 2016, the Authority issued Sewer Revenue Bonds, Series of 2016 (2016 Bonds), in the amount of \$9,895,000 to finance various capital projects of the Authority, fund a deposit to the Debt Service Reserve Fund, and pay related costs and expenses of issuing the bonds. These Bonds were refunded during the year ended July 31, 2021.

During October 2017, the Authority issued Sewer Revenue Bonds, Series A and Series B of 2017 (2017 Bonds), in the amount of \$9,995,000 and \$1,325,000, respectively, a total of \$11,320,000 to refund certain PennVest notes payable, purchase a surety policy for deposit to the Debt Service Reserve Fund, and pay related costs and expenses of issuing the bonds. For Series A, the interest rates vary between 2.00% and 3.00% and mature from 2019 to 2032. The 2017 Series B Bonds matured in 2019.

During February 2020, the Authority issued Sewer Revenue Bonds, Series 2020 (2020 Bonds), in the amount of \$9,910,000 to current refund the 2013 Bonds and pay related costs and expenses of issuing the bonds. The interest rates vary between 2.00% and 5.00% and mature from 2020 to 2034.

During October 2020, the Authority issued Sewer Revenue Bonds, Series 2020A (2020A Bonds), in the amount of \$8,510,000 to current refund the 2015 Bonds and pay related costs and expenses of issuing the bonds. The interest rates vary between 1.00% and 5.00% and mature from 2021 to 2031.

During April 2021, the Authority issued Sewer Revenue Bonds, Series 2021 (2021 Bonds), in the amount of \$8,315,000 to current refund the 2016 Bonds and pay related costs and expenses of issuing the bonds. The interest rates vary between 2.00% and 5.00% and mature from 2021 to 2041.

In the event of default, the bondholder may demand immediate payment of all outstanding principal and accrued interest. All Bonds are secured by pledged revenues derived by the

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Authority from the operations of the Sewer System. The bonds contain certain covenants as to the Authority, with respect to which the Authority is in compliance.

Annual maturities of the bonds payable at July 31, 2022 are as follows:

Year Ending July 31,	Principal	Interest	Total
2023	\$ 1,825,000	\$ 786,232	\$ 2,611,232
2024	1,890,000	720,332	2,610,332
2025	1,980,000	651,582	2,631,582
2026	2,100,000	578,366	2,678,366
2027	2,160,000	509,044	2,669,044
2028-2032	12,100,000	1,894,654	13,994,654
2033-2037	8,445,000	559,380	9,004,380
2038-2041	2,050,000	105,720	2,155,720
Total Payments	32,550,000		
Plus: Unamortized Bond Discount/Premium	896,505		
	<u>\$ 33,446,505</u>	<u>\$ 5,805,310</u>	<u>\$ 38,355,310</u>

Notes Payable - PennVest

During 2011, the Authority entered into a loan agreement with PennVest. The loan proceeds of \$13,087,500 were used to fund the Butler City Act 537 Project. This direct borrowing is secured by a parity first lien on the Authority's sewer revenues and contains provisions that in the event of default, (1) the outstanding principal balance and any accrued and unpaid interest to be immediately due and payable in full, and (2) PennVest may exercise any and all rights in the security interest in the Project collateral. Principal payments of \$635,854 and \$624,201 were made for the years ended July 31, 2022 and 2021, respectively. The interest rate for the first sixty months was 1.437% and is 1.851% for the remainder of the loan. Principal and interest payments are due in monthly installments of \$62,775 for the first 30 months, \$62,690 for the next 30 months, and \$64,593 for the remainder of the loan with the final payment scheduled for August 2032.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Principal and interest payable in future years on all of the PennVest notes are as follows:

<u>Fiscal Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 647,724	\$ 127,392	\$ 775,116
2024	659,815	115,301	775,116
2025	672,133	102,983	775,116
2026	684,680	90,436	775,116
2027	697,461	77,655	775,116
2028-2032	3,687,538	188,042	3,875,580
2033	128,887	298	129,185
	<u>\$ 7,178,238</u>	<u>\$ 702,107</u>	<u>\$ 7,880,345</u>

Changes in Long-Term Liabilities

The following is a summary of debt transactions of the Authority for the year ended July 31, 2022:

	<u>Balance at August 1, 2021</u>	<u>Issuance</u>	<u>Payments</u>	<u>Balance at July 31, 2022</u>	<u>Due within one year</u>
Sewer Revenue Bonds (2017)	\$ 8,325,000	\$ -	\$ (835,000)	\$ 7,490,000	\$ 850,000
Sewer Revenue Bonds (2020)	9,745,000	-	(100,000)	9,645,000	105,000
Sewer Revenue Bonds (2020A)	7,950,000	-	(505,000)	7,445,000	535,000
Sewer Revenue Bonds (2021)	8,290,000	-	(320,000)	7,970,000	335,000
Notes from direct borrowings:					
PennVest Note (2011)	7,814,092	-	(635,854)	7,178,238	647,724
Payable, end of year	<u>\$ 42,124,092</u>	<u>\$ -</u>	<u>\$ (2,395,854)</u>	<u>\$ 39,728,238</u>	<u>\$ 2,472,724</u>

Amounts above and below do not reflect an original issue discount in the amount of \$97,810 and \$108,642, as of July 31, 2022 and 2021, respectively, for the 2013 Bonds and 2017 Bonds. The discount is amortized using the straight-line method over the shorter of the life of the original or refunded bonds.

Amounts above and below do not reflect an original issue premium in the amount of \$994,315 and \$1,079,429, as of July 31, 2022 and 2021, respectively, for the 2015 Bonds, 2016 Bonds, 2020 Bonds, 2020A Bonds, and 2021 Bonds. The premium is amortized using the straight-line method over the shorter of the life of the original or refunded bonds.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

The following is a summary of debt transactions of the Authority for the year ended July 31, 2021:

	Balance at August 1, 2020	Issuance	Payments	Balance at July 31, 2021	Due within one year
Sewer Revenue Bonds (2015)	\$ 8,800,000	\$ -	\$ (8,800,000)	\$ -	\$ -
Sewer Revenue Bonds (2016)	8,665,000	-	(8,665,000)	-	-
Sewer Revenue Bonds (2017)	9,140,000	-	(815,000)	8,325,000	835,000
Sewer Revenue Bonds (2020)	9,835,000	-	(90,000)	9,745,000	100,000
Sewer Revenue Bonds (2020A)	-	8,510,000	(560,000)	7,950,000	505,000
Sewer Revenue Bonds (2021)	-	8,315,000	(25,000)	8,290,000	320,000
Notes from direct borrowings:					
PennVest Note (2011)	8,438,293	-	(624,201)	7,814,092	635,854
Payable, end of year	<u>\$ 44,878,293</u>	<u>\$ 16,825,000</u>	<u>\$ (19,579,201)</u>	<u>\$ 42,124,092</u>	<u>\$ 2,395,854</u>

Neither the credit nor the taxing power of the City, the Township, or any political subdivision other than the Authority is pledged for the payment of the debt service payable. The debt is not an obligation of the City, the Township, or any other political subdivision other than the Authority.

6. Pension Plan

As of February 29, 2008, the accrued benefits for each participant of the defined benefit Pension Plan for Employees of Butler Area Sewer Authority (Plan) were calculated as actuarial equivalent account balances for the purpose of establishing individual account balances for the conversion of the Plan into a 401(a) defined contribution plan. As of the conversion date, no additional defined benefits accrued under the Plan and effective March 1, 2008, the Plan began as a defined contribution plan. As of July 31, 2022, all Authority employees that were eligible participated in the Plan. The Plan requires that all employees be employed at least twelve consecutive months and work a minimum of 1,000 hours during this period, as defined by the Plan document, to be eligible to participate. The Plan year is defined as the calendar year. Beginning January 1, 2018, participants and employers are required to contribute 5% and 7.5%, respectively, of eligible compensation. Employee and employer contributions to the Plan were \$136,291 and \$203,362, respectively, for the year ended July 31, 2022. Employee and employer contributions to the Plan were \$131,524 and \$197,562 respectively, for the year ended July 31, 2021.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Effective March 1, 2008, the Authority adopted the Butler Area Sewer Authority 457(b) Plan (457(b) Plan). The 457(b) Plan year is defined as a calendar year and eligibility requirements of the 457(b) Plan prior to November 1, 2018, are consistent with the eligibility requirements of the Plan noted above. Effective November 1, 2018, contributions to the 457(b) Plan continue to be on a voluntary basis, but may commence upon employment with the Authority, provided applicable enrollment documents are in place. As of July 31, 2022, all of the Authority's employees are eligible to participate in the 457(b) Plan. Employee contributions are permitted up to the lesser of 100% of a participant's annual salary or the maximum annual dollar amount permitted by law. Employee contributions were \$102,171 and \$98,129 for the years ended July 31, 2022 and 2021, respectively.

Effective January 1, 2010, the Authority adopted the 457 Governmental Deferred Compensation Plan & Trust (Governmental Plan), in addition to the existing 457(b) Plan. The Governmental Plan year is defined as a calendar year. Contributions to the Governmental Plan are on a voluntary basis and may commence upon employment with the Authority, provided applicable enrollment documents are in place. As of July 31, 2022, all of the Authority's employees are eligible to participate in the Governmental Plan. Employee contributions are permitted up to the lesser of 100% of a participant's annual salary or the maximum dollar amount permitted by law. Employee contributions for the years ended July 31, 2022 and 2021 were \$12,685 and \$13,408, respectively.

7. Postemployment Benefits Other Than Pension Benefits (OPEBs)Plan Description

In addition to the benefits described in Note 6, the Authority provides postemployment healthcare benefits in accordance with a labor agreement between the Authority and the American Federation of State, County, and Municipal Employees. The OPEB plan is a single-employer defined benefit OPEB plan administered by the Authority. No assets are accumulated in a trust to pay related benefits.

If an employee was hired prior to August 1, 2010, normal retirement is age 65, but those participants who retire after December 31, 2000 are eligible for OPEB benefits after attaining age 62. If an employee was hired on or after August 1, 2010, no post-employment benefits are payable. Covered individuals are employees, their spouses, and eligible dependents.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Benefits Provided

For those eligible employees retiring between ages 62 and 64, the Authority pays up to 97% of the cost of the Authority's active employee group rate at the time of his or her retirement for medical and prescription drug premiums until Medicare eligibility (a period not to exceed 36 months from the retiree's date of retirement). No dental or vision benefits are provided. Upon Medicare eligibility at age 65, the retiree must convert to a Medicare Advantage Plan. The Authority pays the full cost of the designated retiree's Medicare Advantage premium, provided that Medicare eligibility is sustained. For those employees retiring at age 65, the Authority pays the full cost of the designated retiree's Medicare Advantage premium, provided that Medicare eligibility is sustained.

For spouses and eligible dependent(s) who are under age 65, the Authority will pay up to 97% of the Authority's active employee group rate at the time of the retiree's retirement for medical and prescription drug premiums for a maximum period of 36 months from the date of retirement, or until the retiree reaches Medicare eligibility, whichever comes first. If the retiree becomes Medicare eligible prior to the expiration of the maximum 36-month period, the Authority will pay the cost of the spouse's COBRA premium but only until the earlier of the expiration of the 36-month period or the spouse reaching Medicare eligibility. Upon the spouse reaching Medicare eligibility (whether immediately if already at or past Medicare eligibility at the date of retirement, during the first 36 months following retirement, or after the 36 months of coverage if the Authority's plan lapses), the Authority will pay the full cost of the spouse's Medicare Advantage premium, provided that Medicare eligibility is sustained. All Authority-paid benefits to the spouse cease upon the death of the retiring employee. All Authority-paid benefits to dependents cease upon the earlier of the expiration of 36 months following the retiree's retirement date, the spouse's eligibility for Medicare, or the retiree's death.

For pre-age 65 coverage, a PPO \$500/\$1000 Deductible Plan administered by Municipal Benefits Services is available. For post-age 65 coverage, a Medicare Advantage Plan is available, where Highmark bills the Authority through the retiree.

Contributions

The Authority will pay costs up to 97% of the active employee group rate as of the date of retirement towards the retiree group rate for a maximum period of 36 months as described above. The retiree must reimburse the Authority for the difference between the retiree and active plan premiums, if any, and any premium increases after retirement.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Employees Covered by Benefit Terms

As of August 1, 2021, the date of the most recent actuarial valuation, the following employees were covered by the benefit terms:

Current retired participants receiving OPEB benefits	17
Active participants eligible for future OPEB benefits	<u>21</u>
	<u><u>38</u></u>

Total OPEB Liability

The Authority’s total OPEB liability of \$3,849,049 was measured as of August 1, 2021 and was determined by an actuarial valuation as of that date.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of August 1, 2021 using the following actuarial assumptions, applied to all periods including the measurement:

Inflation	2.50%
Discount rate	2.50% per year
Healthcare cost trend rates	

Year	Pre-Medicare Medical	Medicare Supplement
2021	7.75%	4.75%
2022	7.25%	4.50%
2023	6.75%	4.50%
2024	6.25%	4.50%
2025	5.75%	4.50%
2026	5.25%	4.50%
2027	4.75%	4.50%
2028	4.50%	4.50%

Retirees' share of benefit-related costs	The Authority will pay costs up to 97% of the active employee base group rate as of the date of retirement towards the retiree group rate for a maximum period of 36 months. The retiree must reimburse the Authority for the difference between the retiree and active plan premiums, if any, and any premium increases after retirement.
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The discount rate was based on a survey of 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality rates were based on the 2010 Public Retirement Plan – General Employees mortality tables (PubG-2010).

The actuarial assumptions used in the August 1, 2021 valuation were based on the results of an actuarial experience study as of August 1, 2021.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 31, 2021	\$ 4,264,068
Changes for the year:	
Service cost	95,518
Interest	95,435
Changes in assumptions or other input	(105,667)
Differences between expected and actual experience	(373,483)
Benefit payments	<u>(126,822)</u>
Net changes	<u>(415,019)</u>
Balance at July 31, 2021	<u>\$ 3,849,049</u>

There were no changes of benefit terms.

The discount rate was reduced from 2.75% to 2.50% to more accurately reflect the high quality long-term municipal bond rate published by the Federal Reserve.

Assumed interest and inflation rates reduced from 2.75% to 2.50%.

The mortality and mortality improvement assumptions were changed from RP-2014 Table with 50% of Blue Collar Adjustment and rates projected to improve based on rates from the Long-Range Demographic Assumptions for the 2015 Social Security Administrations' Trustee Report to the 2010 Public Retirement Plans – General Employees mortality table (PubG-2010) with improvement projected from 2020 based on the 2020 Social Security Administration's Trustee Report assumptions.

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

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

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate as of July 31, 2022:

	1% Decrease (1.50%)	Discount Rate (2.50%)	1% Increase (3.50%)
Total OPEB liability	\$ 4,443,360	\$ 3,849,049	\$ 3,358,100

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates as of July 31, 2022:

	1% Decrease (1.50%)	Discount Rate (2.50%)	1% Increase (3.50%)
Total OPEB liability	\$ 3,270,912	\$ 3,849,049	\$ 4,577,435

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

For the year ended July 31, 2022, the Authority recognized OPEB expense of \$4,075. At July 31, 2022, the Authority had the following deferred outflows of resources and deferred inflows or resources related to OPEB:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 585,462
Changes of assumptions	-	118,079
	<u>\$ -</u>	<u>\$ 703,541</u>

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

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

<u>Year Ending July 31,</u>		
2023	\$	(186,878)
2024		(186,878)
2025		(186,879)
2026		(84,061)
2027		(58,845)
	<u>\$</u>	<u>(703,541)</u>

8. Environmental and Other Contingent LiabilitiesDEP Chapter 94 Corrective Action Plan (CAP) of 2019

On March 11, 2019, the Authority submitted a voluntary Corrective Action Plan (CAP) with the Pennsylvania Department of Environmental Protection (DEP) to address the hydraulic overloads that have been identified in portions of the Authority's sewer conveyance system, which was approved by the DEP on March 26, 2019. The CAP was granted a schedule revision (R2CAP) on June 2, 2022. The CAP includes various tasks related to the Fisher Heights Pump Station, Brewster & Brewster Booster Pump Station System (FBB), and Greenwood, Benbrook, and Bryson Pump Station System (GBB) with work to be completed through May 2025 and August 2026, respectively.

Pump station assessments and preliminary design evaluation of alternatives for the approved CAP were completed and finalized during the fourth quarter of 2020. At their meeting on December 8, 2020, the Authority Board accepted a proposal to proceed with engineering services for phases 01, 02, and 03 for a lump sum not to exceed fee of \$683,400 to perform the planning, design and other professional services related to the CAP alternatives analysis for the FBB and GBB drainage areas. At their meeting on July 13, 2021, the Authority Board authorized engineering services for phases 04 and 05 in the amount of \$52,000. During the year ended July 31, 2022, an additional \$27,600 was added to phase 02 and 03 engineering service fees.

Once completed, these engineering services will assess, recommend, design, and implement the necessary structural improvements to the FBB and GBB systems to satisfy

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

the CAP. The recommended structural improvements, although originally estimated at \$12,000,000 may increase greatly given current inflation and market conditions, include new submersible pumps and equalization facilities to temporarily store excess wet weather flows during storm events. The Authority is in the process of analyzing this current estimate and are consulting with a financial advisor on the financing options available to fund this project.

As of July 31, 2022, the Authority has successfully complied with the CAP tasks and the CAP implementation schedule. The Authority has also submitted quarterly progress reports to the DEP in a timely manner as required by the CAP.

Act 43 of 2021

On June 30, 2021, P.L. 208, No. 43 (Act 43), Pennsylvania House Bill 957, was passed into law, to become effective in 60 days, amending Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes, in municipal authorities, further providing for purpose and powers. This change in statute may have an effect on the Authority's billable revenues by establishing an opportunity for the owner of multiple residential units that are served by a single water meter to request a review and possible adjustment to the current billable rate. The impact of Act 43 on the Authority is unknown at this time.

9. Commitments

As of July 31, 2022, the Authority has entered into construction contracts that have not been completed as of the end of the fiscal year. Amounts remaining on the contracts for construction services not performed as of July 31, 2022 total approximately \$425,000. Work is scheduled to be completed on these projects during the upcoming fiscal year.

10. Subsequent Event

During the year, the Authority entered into a confidentiality agreement with Pennsylvania American Water (PAW) to consider the possible sale of the Authority assets. Subsequent to year end, on September 13, 2022 the Authority Board announced that PAW formally presented the Authority with an offer to acquire the wastewater system for \$231.5 million. At the Authority's October 11, 2022 meeting the Board voted unanimously to approve and executed the Asset Purchase Agreement (APA) with PAW. The City of Butler and Butler

BUTLER AREA SEWER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2022 AND 2021

Township voted upon and passed resolutions to support the sale at their meetings on October 13, 2022 and October 17, 2022, respectively. PAW will initiate a formal application to the Pennsylvania Public Utility Commission.

REQUIRED SUPPLEMENTARY INFORMATION

BUTLER AREA SEWER AUTHORITY

SCHEDULE OF CHANGES IN THE AUTHORITY'S
TOTAL OPEB LIABILITY AND RELATED RATIOSYEAR ENDED JULY 31
LAST 10 FISCAL YEARS*

	2022	2021	2020	2019	2018
Total OPEB Liability:					
Service cost	\$ 95,518	\$ 111,110	\$ 108,136	\$ 128,003	\$ 124,577
Interest	95,435	115,908	113,534	161,018	154,796
Differences between expected and actual experiences	(373,483)	-	(555,002)	-	-
Changes of assumptions	(105,667)	-	(61,901)	-	-
Benefit payments	(126,822)	(132,474)	(144,087)	(104,459)	(105,616)
Net change in Total OPEB Liability	(415,019)	94,544	(539,320)	184,562	173,757
Total OPEB Liability - Beginning	4,264,068	4,169,524	4,708,844	4,524,282	4,350,525
Total OPEB Liability - Ending	\$ 3,849,049	\$ 4,264,068	\$ 4,169,524	\$ 4,708,844	\$ 4,524,282
Covered Employee Payroll	\$ 1,382,659	\$ 1,630,730	\$ 1,878,279	\$ 1,916,392	\$ 2,237,929
Total OPEB Liability as a percentage of Covered Employee Payroll	278.38%	261.48%	221.99%	245.71%	202.16%

*Until a full 10-year trend is compiled, the required information for the plan is presented for those years for which information is available.

See accompanying notes to required supplementary information.

BUTLER AREA SEWER AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JULY 31, 2022 AND 2021

Accumulated Assets

No assets are accumulated in a trust to pay related benefits.

Benefit Changes

There were no changes of benefit terms.

Changes of Assumptions

In the August 1, 2019 actuarial valuation, the discount rate was reduced from 3.5% to 2.75%; the withdrawal assumption was updated from Table T-2, Actuary's Pension Handbook, to Table T-1, Actuary's Pension Handbook; and the assumed coverage level for future retirees was changed from 20% individual, 80% husband/wife to 40% individual, and 60% husband/wife with the spouse age difference increased from 2 years to 3 years.

In the August 1, 2021 actuarial valuation, the discount, assumed interest, and inflation rates were reduced from 2.75% to 2.50%; Mortality and mortality improvement assumptions were changed from RP-2014 Table with 50% of Blue Collar Adjustment and rates projected to improve based on rates from the Long-Range Demographic Assumptions for the 2015 Social Security Administrations' Trustee Report to the 2010 Public Retirement Plans – General Employees mortality table (PubG-2010) with improvement projected from 2020 based on the 2020 Social Security Administration's Trustee Report assumptions.

There have been no other changes in actuarial assumptions since the date of the last report.

SUPPLEMENTARY INFORMATION

BUTLER AREA SEWER AUTHORITY

COMBINING STATEMENT OF NET POSITION

JULY 31, 2022

Assets	Revenue Fund	Debt Service Fund	Debt Service Reserve Fund	Capital Improvement and Redemption Fund	Bond Redemption and Improvement Fund	Construction Fund	Total
Current assets:							
Cash and cash equivalents	\$ 5,275,059	\$ -	\$ -	\$ 4,194,106	\$ -	\$ -	\$ 9,469,165
Investments:							
Trusteed accounts	-	522,282	1,820,372	-	5,340,689	-	7,683,343
Accounts receivable	2,249,088	-	-	-	-	-	2,249,088
Unbilled sewer receivable	1,047,100	-	-	-	-	-	1,047,100
Total current assets	<u>8,571,247</u>	<u>522,282</u>	<u>1,820,372</u>	<u>4,194,106</u>	<u>5,340,689</u>	<u>-</u>	<u>20,448,696</u>
Non-current assets:							
Capital assets, not being depreciated	1,798,610	-	-	-	-	-	1,798,610
Capital assets, net of accumulated depreciation	56,591,725	-	-	-	-	-	56,591,725
Total capital assets	<u>58,390,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,390,335</u>
Total non-current assets	<u>58,390,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,390,335</u>
Total Assets	<u>66,961,582</u>	<u>522,282</u>	<u>1,820,372</u>	<u>4,194,106</u>	<u>5,340,689</u>	<u>-</u>	<u>78,839,031</u>
Deferred Outflows of Resources							
Deferred charge on refunding	861,645	-	-	-	-	-	861,645
Liabilities							
Current liabilities:							
Vouchers payable	316,085	-	-	-	-	-	316,085
Accrued expenses	782,037	-	-	-	-	-	782,037
Current maturities of bonds payable	1,825,000	-	-	-	-	-	1,825,000
Current portion of notes payable	647,724	-	-	-	-	-	647,724
Total current liabilities	<u>3,570,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,570,846</u>
Non-current liabilities:							
Bonds payable, net of unamortized discount and premium	31,621,505	-	-	-	-	-	31,621,505
Notes payable	6,530,514	-	-	-	-	-	6,530,514
OPEB liability	3,849,049	-	-	-	-	-	3,849,049
Total non-current liabilities	<u>42,001,068</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,001,068</u>
Total Liabilities	<u>45,571,914</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,571,914</u>
Deferred Inflows of Resources							
Deferred inflows of resources for OPEB	703,541	-	-	-	-	-	703,541
Net Position							
Net investment in capital assets	18,627,237	-	-	-	-	-	18,627,237
Restricted	-	522,282	1,820,372	-	5,340,689	-	7,683,343
Unrestricted	2,920,535	-	-	4,194,106	-	-	7,114,641
Total Net Position	<u>\$ 21,547,772</u>	<u>\$ 522,282</u>	<u>\$ 1,820,372</u>	<u>\$ 4,194,106</u>	<u>\$ 5,340,689</u>	<u>\$ -</u>	<u>\$ 33,425,221</u>

BUTLER AREA SEWER AUTHORITY

COMBINING STATEMENT OF NET POSITION

JULY 31, 2021

Assets	Revenue Fund	Debt Service Fund	Debt Service Reserve Fund	Capital Improvement and Redemption Fund	Bond Redemption and Improvement Fund	Construction Fund	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 5,263,071	\$ -	\$ -	\$ 4,419,116	\$ -	\$ -	\$ 9,682,187
Investments:							
Trusteed accounts	-	549	2,336,711	-	5,153,395	-	7,490,655
Accounts receivable	2,139,656	-	-	-	-	-	2,139,656
Unbilled sewer receivable	944,700	-	-	-	-	-	944,700
Total current assets	<u>8,347,427</u>	<u>549</u>	<u>2,336,711</u>	<u>4,419,116</u>	<u>5,153,395</u>	<u>-</u>	<u>20,257,198</u>
Non-current assets:							
Capital assets not being depreciated	1,181,850	-	-	-	-	-	1,181,850
Capital assets, net of accumulated depreciation	59,258,482	-	-	-	-	-	59,258,482
Total capital assets	<u>60,440,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,440,332</u>
Total non-current assets	<u>60,440,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,440,332</u>
Total Assets	<u>68,787,759</u>	<u>549</u>	<u>2,336,711</u>	<u>4,419,116</u>	<u>5,153,395</u>	<u>-</u>	<u>80,697,530</u>
Deferred Outflows of Resources							
Deferred charge on refunding	954,774	-	-	-	-	-	954,774
Liabilities							
Current liabilities:							
Vouchers payable	178,832	-	-	-	-	-	178,832
Accrued expenses	955,663	-	-	-	-	-	955,663
Current maturities of bonds payable	1,760,000	-	-	-	-	-	1,760,000
Current portion of notes payable	635,854	-	-	-	-	-	635,854
Total current liabilities	<u>3,530,349</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,530,349</u>
Non-current liabilities:							
Bonds payable, net of unamortized discount and premium	33,520,787	-	-	-	-	-	33,520,787
Notes payable	7,178,238	-	-	-	-	-	7,178,238
OPEB liability	4,264,068	-	-	-	-	-	4,264,068
Total non-current liabilities	<u>44,963,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,963,093</u>
Total Liabilities	<u>48,493,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,493,442</u>
Deferred Inflows of Resources							
Deferred inflows of resources for OPEB	411,269	-	-	-	-	-	411,269
Net Position							
Net investment in capital assets	18,300,227	-	-	-	-	-	18,300,227
Restricted	-	549	2,336,711	-	5,153,395	-	7,490,655
Unrestricted	2,537,595	-	-	4,419,116	-	-	6,956,711
Total Net Position	<u>\$ 20,837,822</u>	<u>\$ 549</u>	<u>\$ 2,336,711</u>	<u>\$ 4,419,116</u>	<u>\$ 5,153,395</u>	<u>\$ -</u>	<u>\$ 32,747,593</u>

BUTLER AREA SEWER AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

YEAR ENDED JULY 31, 2022

	Revenue Fund	Debt Service Fund	Debt Service Reserve Fund	Capital Improvement and Redemption Fund	Bond Redemption and Improvement Fund	Construction Fund	Total
Operating Revenues:							
Sewer charges - non-industrial waste	\$ 10,561,806	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,561,806
Sewer charges - industrial waste	328,749	-	-	-	-	-	328,749
Other operating fees and charges	260,786	-	-	-	-	-	260,786
Total operating revenues	11,151,341	-	-	-	-	-	11,151,341
Operating Expenses:							
Operations and maintenance	5,330,364	-	-	-	-	-	5,330,364
Administration	920,487	-	-	-	-	-	920,487
Depreciation	3,725,042	-	-	-	-	-	3,725,042
Total operating expenses	9,975,893	-	-	-	-	-	9,975,893
Operating Income (Loss)	1,175,448	-	-	-	-	-	1,175,448
Non-Operating Revenues (Expenses):							
Interest income	195,849	1,519	4,467	2,207	9,838	-	213,880
Interest expense	(1,081,722)	-	-	-	-	-	(1,081,722)
Bond issuance costs	-	-	-	-	-	-	-
Loss on disposal of capital assets	-	-	-	-	-	-	-
Amortization	74,282	-	-	-	-	-	74,282
Total non-operating revenues (expenses)	(811,591)	1,519	4,467	2,207	9,838	-	(793,560)
Income (Loss) Before Capital Contributions and Transfers	363,857	1,519	4,467	2,207	9,838	-	381,888
Capital Contributions:							
Tap-in fees	295,740	-	-	-	-	-	295,740
Total capital contributions	295,740	-	-	-	-	-	295,740
Net Income (Loss) Before Transfers	659,597	1,519	4,467	2,207	9,838	-	677,628
Transfers:							
Transfers in from:							
Revenue Fund	-	2,608,739	-	-	812,350	-	3,421,089
Debt Service Fund	2,609,331	-	-	-	-	-	2,609,331
Debt Service Reserve Fund	-	520,806	-	-	-	-	520,806
Capital Improvement and Redemption Fund	862,111	-	-	-	-	-	862,111
Bond Redemption and Improvement Fund	-	-	-	634,894	-	-	634,894
Construction Fund	-	-	-	-	-	-	-
Transfers out to:							
Revenue Fund	-	(2,609,331)	-	(862,111)	-	-	(3,471,442)
Debt Service Fund	(2,608,739)	-	(520,806)	-	-	-	(3,129,545)
Debt Service Reserve Fund	-	-	-	-	-	-	-
Capital Improvement and Redemption Fund	-	-	-	-	(634,894)	-	(634,894)
Bond Redemption and Improvement Fund	(812,350)	-	-	-	-	-	(812,350)
Net Income (Loss)	709,950	521,733	(516,339)	(225,010)	187,294	-	677,628
Net Position:							
Beginning of year	20,837,822	549	2,336,711	4,419,116	5,153,395	-	32,747,593
End of year	\$ 21,547,772	\$ 522,282	\$ 1,820,372	\$ 4,194,106	\$ 5,340,689	\$ -	\$ 33,425,221

BUTLER AREA SEWER AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

YEAR ENDED JULY 31, 2021

	Revenue Fund	Debt Service Fund	Debt Service Reserve Fund	Capital Improvement and Redemption Fund	Bond Redemption and Improvement Fund	Construction Fund	Total
Operating Revenues:							
Sewer charges - non-industrial waste	\$ 10,352,097	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,352,097
Sewer charges - industrial waste	340,654	-	-	-	-	-	340,654
Other operating fees and charges	144,273	-	-	-	-	-	144,273
Total operating revenues	10,837,024	-	-	-	-	-	10,837,024
Operating Expenses:							
Operations and maintenance	5,026,355	-	-	-	-	-	5,026,355
Administration	1,113,770	-	-	-	-	-	1,113,770
Depreciation	3,685,849	-	-	-	-	-	3,685,849
Total operating expenses	9,825,974	-	-	-	-	-	9,825,974
Operating Income (Loss)	1,011,050	-	-	-	-	-	1,011,050
Non-Operating Revenues (Expenses):							
Interest income	188,700	1,000	980	3,667	1,582	120	196,049
Interest expense	(1,251,394)	-	-	-	-	-	(1,251,394)
Bond issuance costs	(423,655)	-	-	-	-	-	(423,655)
Loss on disposal of capital assets	(3,275)	-	-	-	-	-	(3,275)
Amortization	74,282	-	-	-	-	-	74,282
Total non-operating revenues (expenses)	(1,415,342)	1,000	980	3,667	1,582	120	(1,407,993)
Income (Loss) Before Capital Contributions and Transfers	(404,292)	1,000	980	3,667	1,582	120	(396,943)
Capital Contributions:							
Tap-in fees	131,771	-	-	-	-	-	131,771
Total capital contributions	131,771	-	-	-	-	-	131,771
Net Income (Loss) Before Transfers	(272,521)	1,000	980	3,667	1,582	120	(265,172)
Transfers:							
Transfers in from:							
Revenue Fund	-	2,603,406	-	-	1,279,184	-	3,882,590
Debt Service Fund	2,604,113	-	-	-	-	-	2,604,113
Capital Improvement and Redemption Fund	492,227	-	-	-	-	-	492,227
Construction Fund	-	-	-	346,835	-	-	346,835
Transfers out to:							
Revenue Fund	-	(2,604,113)	-	(492,227)	-	-	(3,096,340)
Debt Service Fund	(2,603,406)	-	-	-	-	-	(2,603,406)
Capital Improvement and Redemption Fund	-	-	-	-	-	(346,835)	(346,835)
Bond Redemption and Improvement Fund	(1,279,184)	-	-	-	-	-	(1,279,184)
Net Income (Loss)	(1,058,771)	293	980	(141,725)	1,280,766	(346,715)	(265,172)
Net Position:							
Beginning of year	21,896,593	256	2,335,731	4,560,841	3,872,629	346,715	33,012,765
End of year	\$ 20,837,822	\$ 549	\$ 2,336,711	\$ 4,419,116	\$ 5,153,395	\$ -	\$ 32,747,593